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<b>Title</b>	Exploring the factors that determine the success of global venture capital investing in the emerging markets of South East Asia using a grounded theory and case studies approach
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Exploring the factors that determine the  
success of global venture capital investing  
in the emerging markets of South East Asia  
using a grounded theory and case studies approach

**Sivapalan Vivekarajah**

**Thesis presented for the degree of**

**Doctor of Philosophy**

**The University of Edinburgh**

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## ***Declaration***

I declare that this thesis has been composed by myself, with the work my own and that this work has not been submitted for any other degree or professional qualification.

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## **Abstract**

The movement of large amounts of venture capital funds across the globe seeking extraordinary profits has a profound effect on investors, fund managers and economies. With US\$ 101 billion of venture capital funds under management in Asia as at June 2004 (2005 Guide to Venture Capital in Asia), such an important phenomenon is deserving of extensive study, yet the existing literature is scarce and theories are limited. The majority of research into global venture capital investing has been centred on the impact of the external environment on the global venture capital firm.

However existing research has not studied "why" some global venture capital firms are more successful than others or even defined the meaning of "success" in terms of global venture capital firms. In particular, the literature on, and understanding of, global venture capital investing from an Asian context is relatively scarce. This gap needs to be filled particularly from an emerging venture capital market perspective in view of the increasing importance of Asia to world trade, investment and growth, including venture capital investments.

The central objective of this thesis is therefore to determine why some global venture capital firms are more successful than others and this determination is made in the South East Asian context in three emerging venture capital markets: Malaysia, Singapore and Thailand. Six different firms are studied in these markets, three successful and two failed international firms, as well as one domestic Malaysian firm. The research was conducted using an inductive, exploratory research design using the Grounded Theory and case study methodology, reframed for use in this context. The framework proved invaluable and is one of the contributions of this research. In the six cases, 14 senior managers were interviewed, including multiple interviews with each manager. The interview data was then triangulated with other qualitative and quantitative data to ensure a robust research design and reliability of the findings.

The results show that firms are successful because of the intangible resources of the firm and enabled the development of three meta-propositions based on three management theories - Resource Based View, Core Competence theory and the Dynamic Capabilities view of the firm.

The significant contribution of this thesis is to show that based on the three meta-propositions there is a discernible shift in emphasis from what I term the classic view of venture capital which is based on 'Resources', 'Institutions' and 'Environments' to a new Knowledge Management view of Global Venture Capital investing. From the perspective of this thesis, the success of global venture capital firms is based on Knowledge Management and not on the classic views proposed by most existing venture capital researchers.

This shift in emphasis is important as it contributes new thinking to research in Global Venture Capital.

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## **1. Introduction**

With the opening up of world markets, global venture capital flows have increased rapidly particularly in the last decade. New venture creation and the globalisation of new ventures have led to the need for increased funding worldwide. According to Gompers & Lerner (2001) between 1989 and 1999, venture capital activity outside North America grew by more than 300%. This has led to a greater interest in academic research in this field, yet theory development and analysis of what leads to the success or failure of Global Venture Capital (GVC) investing is scarce. It is also important to note that as GVC research is still in a nascent stage, a definition for globalisation is sketchy as will be seen in the discussion in section 1.4.1. In this dissertation we will adopt Aylward's (1998) definition of GVC, as "cross-border entry into emerging markets", which adequately fits our research.

Between 1992 and 1998, fund raising in Asia and Australia grew more than 5 times and in Taiwan it grew almost twenty times in the same period (Gompers & Lerner, 2001). While the flow of investments into emerging markets in Asia has been increasing rapidly, most of the research is still centred on the US and European markets, with only a handful of researchers like Bruton et al. (2004), Wright et al. (2002) and Wang et al. (2002) studying venture capital investments in China, India or Singapore.

Studies examining factors that contribute to successful GVC investing are limited. While many authors (Black & Gilson, 1998; Bruton et. al.; 1999, Scheela, 1994) have researched certain factors such as institutional environmental factors, which they deem important for successful global investing, absent are studies specifically identifying why some venture capital firms are successful while others are not. Even though GVC investing is still a comparatively new phenomenon over the last 15 – 20 years (Gompers & Lerner, 2001), this timeframe is adequate to search for and study the firms<sup>1</sup> that have been successful and the few firms that may have failed.

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<sup>1</sup> In the context of this dissertation the word 'firm' refers to the venture capital firm. While a firm connotes a 'partnership' and in most cases venture capital firms are limited partnerships, other forms of organisation like funds, trusts and limited liability corporations are possible but this does not affect the research. The use of the word 'company' will refer to the portfolio company or investee of the venture capital firm.

What is equally interesting is the absence of studies that define the meaning of “success” in GVC investing. Success can be defined in many ways for venture capital firms, but the main measure is financial success in terms of return on investment (RoI); return on capital employed (RoC), and a target Internal Rate of Return (IRR) (Bygrave & Timmons, 1992; Bygrave et al, 1999). Although there may be other reasons to determine success, and some have been discovered in this dissertation, the selection of cases for this dissertation has been based on financial success, which is currently the best way to determine whether a firm was a success or failure (see section 3.8 for the full basis of the selection).

Bygrave & Timmons (1992) also found that older VC firms had better returns, leading one to conclude that longevity does have some impact on firm success although longevity could be a result of success and not the other way around. Longevity was another factor that was used to select successful cases for this dissertation. As success can have many different meanings in the venture capital field, we will determine what success means to the respondents in this study. Based on their views of success, we will explore why some firms are successful and why others fail.

This thesis makes several contributions to the literature on GVC. Firstly, it is one of the first studies on the factors that lead to successful investing and the causes of failure amongst GVC firms. Secondly, this study fills the gap in emerging markets research by conducting research focused on three of the larger South East Asian emerging markets for venture capital investing – Malaysia, Singapore and Thailand. Thirdly, by using an exploratory Grounded Theory (GT) and case study methodology for the research, the thesis develops a methodological framework and from this a theoretical basis for success, thereby contributing both to the methodological and theoretical knowledge in this field.

## **1.1 Structure of the Dissertation**

This dissertation will follow the following structure.

This Chapter provides an introduction to the background for this research, the research question, the objectives of the research, some important definitions and the reasons for researching global venture capital in Asia.

Chapter 2 provides a comprehensive review of the current literature on global venture capital investing. The intention of this chapter is to “scope” the literature to ensure that the research question hasn’t been sufficiently well explored or answered. The chapter will show that GVC is a field of study that is in an embryonic state with research in the Asian context scarce by comparison to research done in the American and European context. It will also show that existing research does not answer the critical question of why some firms are successful or why others fail.

Chapters 3 and 4 describe the methodology and research design of this dissertation. Chapter 3 provides in-depth details on the methodology and research design employed in this dissertation: the Grounded Theory and case study methodology. It will include the reasons why this research design was chosen as well as details on the framework for the methodology, which combines the different elements of Grounded Theory as well as case studies. Chapter 4 provides an outline of how the methodology is actually applied with selected examples.

Using this methodology and research design, Chapter 5 provides the analysis and results of the study. It is here that the real value of the Grounded Theory and case study design is demonstrated. Chapter 6 then reports the generation of propositions from the results that were obtained from the research. Three aspects are important in generating propositions. The first is shaping propositions from the results where several different propositions are generated. The next step is to match the propositions with the literature in the field, known as matching with enfolding literature (Eisenhardt, 1989). This enables the researcher to use existing literature to verify the propositions and thus add robustness to the study. The final step is to ensure that there is theoretical ‘saturation’, an important element of this methodology. This is necessary to ensure that adequate research has been done and that the findings are sufficient to support the generation of propositions.

Chapter 7 shows the ‘development’ of theory from all the findings and from the verification of the propositions in Chapter 6. While ‘new’ theories are not developed in this dissertation, the propositions that have been discovered will be applied to global venture capital research in the South East Asian context using three existing

management theories: the Resource Based View, Core Competence theory and the Dynamic Capabilities view. From these three meta-propositions we develop a new Knowledge Management view of GVC investing.

Chapter 8 concludes the dissertation by discussing the findings, contributions of the research, limitations of the research, a viewpoint on the global model of venture capital and suggestions for future research.

## **1.2 Research Problem & Objectives of the Dissertation**

The origin of the research problem was grounded in my intuitive approach and background in the venture capital arena. As a consultant in venture capital for 4 years, I was keen to establish why some prominent venture capital firms such as Softbank Emerging Markets actually failed in South East Asia while others have flourished for many years and continue to grow and invest successfully (Walden International, 3i, H&Q, etc). This PhD thesis provided an opportunity to seek an answer to this question.

Scoping the literature showed that there was no adequate answer to this question. The literature provided examples of factors that impact on success such as politics (Scheela, 1994, Megginson, 2004), laws and regulations (Bruton et al., 2004, Pohndorf, 1997), financial aspects (Barger et al., 1996, Lemberg & Paist, 2000), culture (Tan, 1998) and others (see section 2 for a detailed analysis). However, the literature does not provide an adequate answer to the “why are firms successful” or “why do firms fail”, question.

This led to the two research problems identified in this dissertation:

- a) The need to determine “success” factors in GVC investing
- b) The development of propositions which explain successful GVC investing

Based on these two research problems we can identify the following two objectives:

### **1.2.1 Determining Success**

The element of individual firm “success” is not often mentioned or studied in GVC research (Dotzler, 2001, Jeng & Wells, 2000) but this is a significant issue for all firms that aspire to globalise. Even when success is mentioned in the literature it is on the basis of how the environment impacts on the firm (White et al., 2002) or what

governments have done to create successful venture capital industries rather than why individual firms are successful or why they fail (Kenney et al., 2002). How does the firm ensure the success of its globalisation effort, and what are the factors that not just lead to firm success but what are the barriers that must be overcome to ensure that the firm does not fail? A search of the literature reveals little at this time on the causes of success or failure in venture capital firms, though Kenney et al. (2002) do mention some successful firms, including H&Q Asia Pacific and Walden International, they do not examine or explain why these firms are successful. A detailed examination of this will be shown in section 2.

This element of firm success will be explored in this in-depth research by using multiple case studies, researching both successful foreign venture capital firms and foreign venture capital firms that have failed in the emerging markets they have entered. The selection of extreme or polar cases (i.e. comparing successful and failed firms) is recommended in the Grounded Theory methodology and will be explained further in the methodology section (section 3.8.2).

The first objective of this study is to determine the factors that lead to successful GVC investing in the three markets being studied. These markets were selected for several reasons including the fact that they are three of the largest emerging venture capital markets in South East Asia, they are within close proximity to each other making research more viable and that global investors are actively investing there. Detailed reasons for the selection of these markets are provided in section 3.8.1

### **1.2.2 Theory development**

The two main theories expounded by researchers in the field of global venture capital are Institutional Theory (Bruton et al. 2004, 2002, Barger et al., 1996) and the Resource Based View of the firm (Heel & Kehoe, 2005, Bahn et al., 2002). In the case of Institutional Theory, Bruton et al. (2004, 2002) specifically state that they use this theory in their analysis while in the Resource Based View, although the authors do not specifically mention the theory, their analysis is based on intangible resources of the firm, thus fitting into the mould of this theory (Barney, 1991, Galbreath, 2005). Many of the other research papers are conceptual and do not specify theory and in some cases



even the empirical studies do not specify any particular theory (Megginson, 2004, Patricof, 1989).

The majority of the Institutional Theory research has been centred on environmental factors that impact on the GVC firm. For example, the research shows that the general political climate, the regulatory and legal framework and tax laws have an impact on the GVC firm (Black & Gilson, 1998, Bruton et.al., 1999), yet how much of an impact and to what extent they affect the success of the firm has not been studied. Hence theory development is still underdeveloped in this nascent field of research.

In terms of models of GVC investing, Megginson (2004) and Kenney et al. (2002) use the "U.S. model" in their research but do not specify what this model entails and do not provide empirical evidence to support the existence or validity of such a model, especially in its use by global venture capital firms.

This lack of an agreed set of theories or models provides us with the basis for exploratory research in this dissertation. One methodology for exploratory research is Glaser & Strauss' (1967) Grounded Theory methodology. Grounded Theory allows a researcher in a relatively new field of research to develop theory without using prior hypotheses or opinions. It allows the data itself to lead to theory development and is thus a useful methodology to use in GVC research in Asia. Additionally the use of case studies is also encouraged in new fields of research (Eisenhardt, 1989; Yin, 1994). This dissertation will therefore use a Grounded Theory and case study methodology for the study. Details of the methodology are elaborated in chapter 3 on research design.

Hence the two objectives of this dissertation are firstly to determine "why" some firms are more successful than others in GVC investing and secondly to use the results of the research to develop propositions for successful GVC investing in emerging venture capital markets.

### **1.3 Research Question**

Based on the background mentioned above and the research problems and objectives, the following research question has been identified:

***“Why are some venture capital firms more successful in global venture capital investing than others and how do they ensure this success?”***

This research question will be considered from the South East Asian regional context as outlined in section 1.5. The research question also fits comfortably within the “big question in international business research” that Peng (2004) identified. He states that the “big question” is “What determines the international success and failure of firms?” He believes that this is one element in international business research that has not been adequately studied. Based on the literature review to follow, this is also true for global venture capital research as it is a question that has not been adequately explored in this field.

Thus answering this Research Question will provide new insight in the field of global venture capital and will add to the knowledge in this field more so from ‘an emerging venture capital market in Asia’ perspective.

## **1.4 Some Definitions**

Before starting the process of examining the findings of the literature review, we shall first consider some definitions that are particularly relevant to this research.

### **1.4.1 Venture Capital**

There are many different definitions of venture capital and we shall consider several possible definitions and later adopt one that is most suitable for this thesis.

In a synthesis of the venture capital and private equity industry, Wright & Robbie (1998: 521) defined venture capital as:

“... the investment by professional investors of long-term, unquoted, risk equity finance in new firms where the primary reward is an eventual capital gain, supplemented by dividend yield”

Tan (1998) refers to venture capital as:

“...the risky financing of small technology firms to commercialise their technological inventions with the potential for a phenomenal return on the



financial investment. Venture capital also refers to investments in businesses that are based on expanding tested technology or concepts in new markets”.

These definitions point to several key points on venture capital. The funds are professionally managed, they are invested primarily for capital gains which means equity investments, they are invested in risky ventures both to exploit technologies and to expand businesses into new markets and they seek a large reward for taking these risks and making such investments. Hence a definition of venture capital should have elements of all these points and are clearly adopted in a recent definition by Megginson (2004: 8) which we shall adopt for the purposes of this thesis as follows:

“... venture capital is ... a professionally managed pool of money raised for the sole purpose of making intermediate-term, actively managed, direct equity investments in rapidly growing private companies, with a well defined exit strategy – preferably through an initial public offering”.

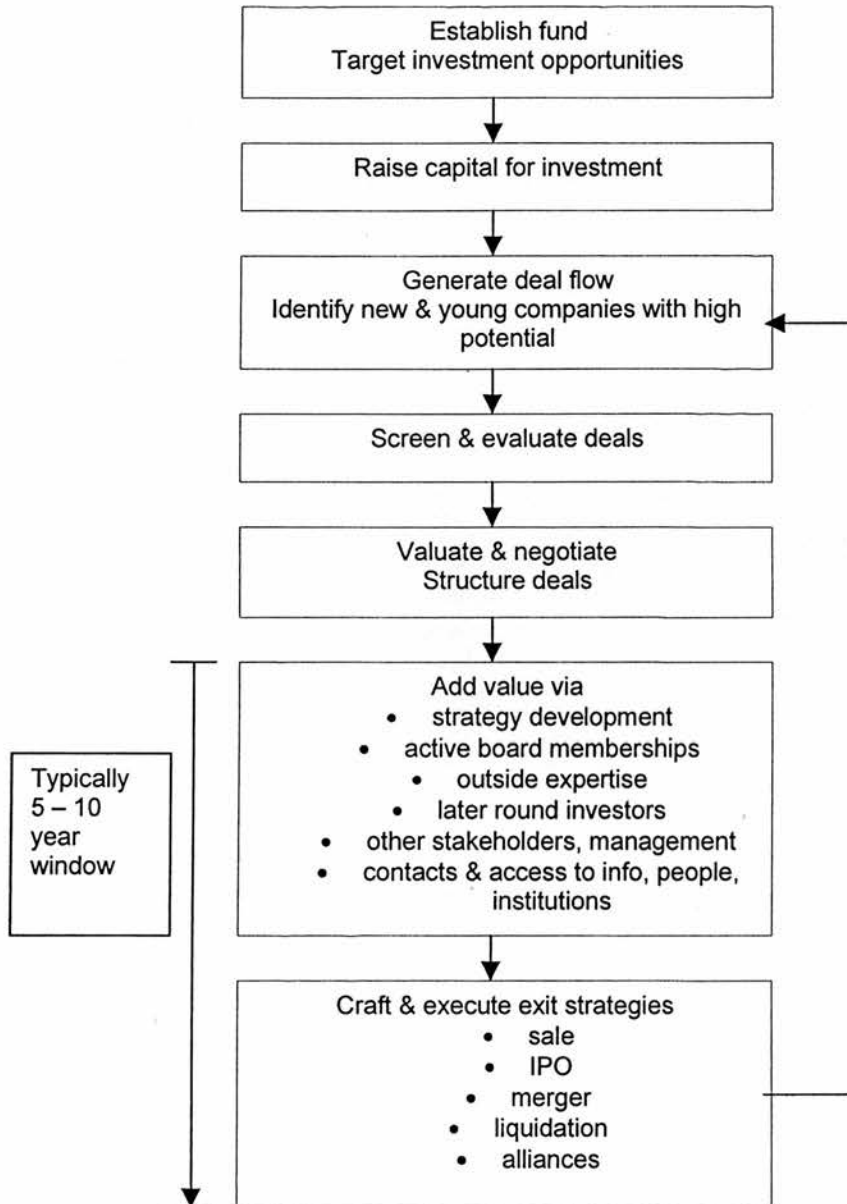
The points that have been highlighted in the definition show that Megginson's definition fit the requirements of a valid definition of venture capital.

#### **1.4.2 Venture Capital Process**

In studying venture capital, it is useful to understand the process of venture capital. A good analysis of the venture capital process is found in Bygrave & Timmons (1992) and is reproduced in Figure 1.1 below.

This process shows that venture capitalists go through a process of raising capital for their funds, identifying deals for investment, adding value and then exit their investments in return for a financial return. Returns are then used for new deals if they are not returned to their investors.

**Figure 1.1: Venture Capital Process**



### **1.4.3 Globalisation or Internationalisation and defining GVC**

While several researchers have provided a definition for venture capital, a definition for GVC is not so straightforward. Global venture capital research is in such a nascent stage that there has been very little attempt to specifically define it. Even the terms internationalisation and globalisation are often used interchangeably with authors not finding it necessary to confine it to one particular meaning (Patricof, 1989; Wright, Lockett & Pruthi, 2002).

In the field of international entrepreneurship Zahra & George (2002) define internationalisation as "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage". This could equally apply to global venture capital firms that wish to expand abroad to seek and exploit new opportunities as stated by Murray (1995), who found that foreign venture capitalists sought more attractive opportunities outside the UK and thus limited their investments in the UK in favour of mainland Europe.

Aylward (1998) viewed the globalisation of venture capital from the perspective of substantial cross-border entry into emerging markets while Zalan (2004) took the perspective of internationalisation of private equity as the process of international operations across borders. Jeannet (2000) defined globalisation as "*investing in at least three countries in three different continents*" (quoted in Haemmig, 2003). Wright et al. (2005) consider international venture capital to involve "cross-country comparisons of venture capital firms as well as cross-border flows into venture capital funds and outflows of funds into investments in other countries".

As it is not the intention of this dissertation to seek exact definitions, it is sufficient to accept the approximate definitions of globalisation and adopt Aylward's (1998) version of globalisation of venture capital as *cross-border entry into emerging markets*, which adequately fits the research in this dissertation.

#### **1.4.4 Emerging venture capital markets**

The study is also of “emerging venture capital markets” and this should not be confused with developing countries or emerging markets from an economic sense. In the context of this thesis, it is not the country or economy that is being studied but a market for venture capital. Thus Asia as a whole, excluding Japan, is a relatively new market for global venture capitalists and will be considered an “emerging venture capital market”. Many other areas are also considered emerging markets including Eastern Europe, Russia, Latin America and Africa. However, due to the many possible cultural and developmental issues, this study is confined to a general Asian focus using Malaysia, Singapore and Thailand as the location for the study.

While it may be argued that Asia is not homogeneous and thus generalisation may be difficult, the differences among Asian nations is less than the differences between Asia and Europe or the USA hence some generalisation is possible. Sapienza et al. (1994) even found differences in the way venture capitalists transact their business in Britain, France and the Netherlands, demonstrating that there is no homogeneity even among Western European venture capital markets, but could still make valid comparative research. Thus the differences among these South East Asian nations should not prevent valid generalisations from being made.

#### **1.4.5 Success**

Finally, in measuring success many possible methods can be used with different sets of difficulties. Bygrave & Timmons (1992) mention some examples of success such as financial success in terms of net earnings, Return on Investment (RoI) or revenue growth. They also identify success with the longevity of the firms, their ability to successfully raise additional funds and even their ability to IPO or list their investees on stock exchanges or successfully sell them in a trade sale.

Buckley & Chapman (1997) found that in cross-cultural studies the researcher's determination of categories could be different from what the respondents believe such categories to be. Hence it is better in some cases to allow the respondents to determine the relevant categories and for the researcher to use the respondent's description and values of the category rather than use his own description. In this way, the real value of

the category is obtained. They called this form of deriving the true value of a category "native categories".

Following Buckley & Chapman (1997) the methodology in this thesis will not provide respondents with a definition of what success means but will seek the definition from the respondents themselves i.e. how do the venture capitalists themselves define or measure their success in their foreign investments? This also supports the basis of using the abductive research design as will be seen in section 3.1.2.

However for conceptual purposes we shall use the examples provided by Bygrave & Timmons (1992) and define success in the venture capital industry as follows:

*Successful venture capital firms are firms that yield high financial returns, have been in the venture capital business for an extended period of time and have been able to successfully raise additional rounds of funding from investors.*

## **1.5 Reason For Researching GVC In Asia**

We shall briefly consider some reasons for researching GVC in Asia and primarily Malaysia, Singapore and Thailand.

### **1.5.1 Global Venture Capital Is A Growing Phenomenon**

Financially, GVC is a sizable global industry with an estimated US\$ 1 trillion raised globally between 1998 and 2003 (2005 Guide to Venture Capital in Asia). Of this amount, US\$ 101 billion is currently under management in Asia, the majority by foreign venture capital firms in Asia (2005 Guide to Venture Capital in Asia). Venture capital firms are also more globalised than ever before with an estimated 5,162 professionals in 1,560 firms operating in Asia, of which only 47% are local funds (Asian Private Equity, 2003). (Table 1.1 on the next page details the size of the market in Asia).

Researchers have shown that GVC is also a growing phenomenon due to several factors that include declining opportunities in Western domestic markets (Wright & Robbie, 1998); maturing of western markets (Murray, 1995); greater competition in their domestic markets (Hall & Tu, 2003); better opportunities due to incentives offered in

emerging markets (Schilit, 1992); and higher growth rates in emerging markets (Gibbons et al., 1998).

Despite the huge sums under management and the increasing numbers of professionals and firms, few studies have examined how these foreign venture capital firms can successfully deploy these funds in emerging markets, particularly in Asia. Researchers have also pointed out that the understanding of GVC and of venture capital in Asia is scarce as is the literature (Bruton & Ahlstrom, 2003, Wang et al., 2002) and this gap needs to be filled in view of the increasing importance of Asia to world trade, investment and growth.

### **1.5.2 Venture Capital in Asia and South East Asia**

There is very little research on global venture capital investing in Asia and South East Asia in particular and this is a gap that this dissertation will help to fill. South East Asia is a growing area for venture capital investments. The amount of venture capital under management in South East Asia comprises almost US\$ 13.6 billion or 14.5% of the total in Asia (Table 1.1, next page). The number of professionals in South East Asia is 17% of Asia or 24.4% ex-Japan, while the number of firms is 15.5% of Asia or 18.5% ex-Japan. Malaysia, Singapore and Thailand alone comprise 90% of South East Asian funds, 76% of its firms and 78% of its professionals.

Asian Venture Capital Industry Profile				
Country	Capital Under Management (US\$ mil)	New Funds Raised (US\$ mil)	Number of Firms/ Funds	Number of Professionals
Australia	5,810	90	180	440
China	6,730	190	239	388
Hong Kong	26,725	50	181	625
India	2,860	150	81	272
Indonesia	1,050	0	31	105
Japan	24,220	652	258	1,581
Korea	7,000	150	165	458
Malaysia	900	80.7	44	103
New Zealand	660	25	45	77
Philippines	250	-	19	61
Singapore	10,690	70	119	515
Taiwan	6,455	30	170	448
Thailand	630	7	20	66
Vietnam	118	2.5	8	23
<b>Total Asia</b>	<b>94,098</b>	<b>1,497</b>	<b>1,560</b>	<b>5,162</b>
Malaysia, Singapore & Thailand (MST)	12,220	157.7	183	684
Total South East Asia (SEA)	13,638	160.2	241	873
SEA as % of Asia	14.5	10.7	15.5	17
SEA as % of Asia ex-Japan	19.5	19	18.5	24.4
MST as % of SEA	90	98.4	76	78.3
MST as % of Asia	13	10.5	11.7	13.2
MST as % of Asia ex-Japan	17.5	19	14	19

Table 1.1 Asian Venture Capital Industry Profile as at June 2003 (Source: Asian Private Equity 300)

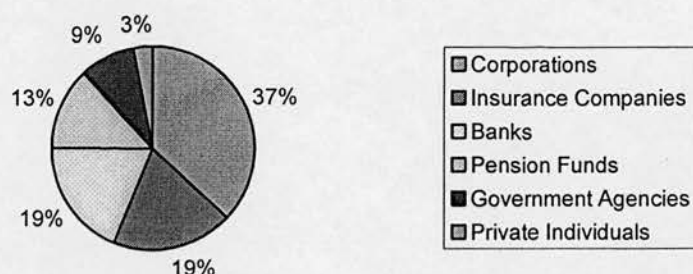
#### Additional information on Asian Venture Capital

The following charts provide some additional information on venture capital in Asia.

#### Sources of Funding

The sources of funding in Asia are primarily through corporations, banks and the insurance industry with smaller amounts sourced from pension funds, government agencies and private individuals (see Figure 1.2 below).

**Figure 1.2: Asia - Sources of Venture Capital**

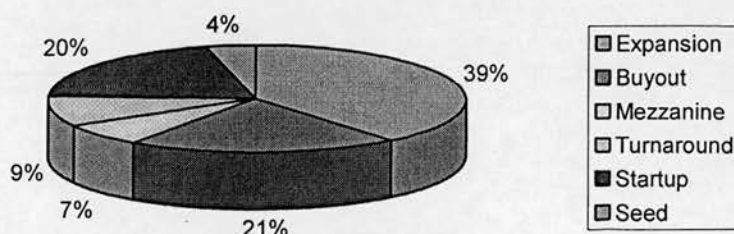


Source: The 2004 Guide to Venture Capital in Asia.

#### Disbursements by Financing Stage

In terms of disbursements towards the different stages of investment, most of the funds are invested in the expansion stage and for buyouts while investments in early stage ventures comprise less than a quarter of investments (see Figure 1.2 below).

**Figure 1.3: Disbursements by Financing Stage**



Source: The 2004 Guide to Venture Capital in Asia.

#### Disbursements by Industry

Most of the venture capital investments are in the Information & Communications Technology industry followed by the services and consumer and manufacturing sectors as shown in Table 1.2 below.



<b>Table 1.2: Disbursements of VC Funds by Industry Sectors</b>		
<b>Industry</b>	<b>Amount Invested US\$ million</b>	<b>Percentage of total</b>
Computer, Electronics & IT	14,561	27.8
Telecommunications	7,191	13.8
Medical & Biotech	2,133	4.1
Manufacturing	5,348	10.2
Construction & Infrastructure	3,881	7.4
Mining & Transport	2,175	4.1
Financial Services	7,010	13.4
Services Non-Financial	1,304	2.5
Consumer & Retail	4,903	9.4
Media & Entertainment	1,946	3.7
Agriculture & Ecology	871	1.6
<b>Total</b>	<b>52,276</b>	<b>100 %</b>

Source: The 2004 Guide to Venture Capital in Asia.

The above information indicates that from a venture capital in Asia perspective, South East Asia is an important region while within this region; Malaysia, Singapore and Thailand are the three most important countries. This makes South East Asia an important region to study global venture capital and Malaysia, Singapore and Thailand the three most important countries within South East Asia.

## **1.6. Western Model of Venture Capital**

Existing research in Asia often adopts the Western, mainly American 'model' or method of venture capital investing (Bruton et al., 2005). Firstly, this is because it is accepted that venture capital as an investment method was founded in the US and the first venture capital type investment is generally credited to Professor Georges Doriot of American Research and Development (known as the father of classic venture capital in America) (Bygrave & Timmons, 1992). Secondly this is the model used in the most successful and mature venture capital market in the world, the USA and thirdly because there really is no other model available.

Furthermore, the only models developed by researchers in the field of venture capital are based on US and European data including the Venture Economics database, data from the National Venture Capital Association of the USA and from the European Venture Capital and Private Equity Association (Tyebjee & Bruno, 1984, Fried & Hisrich,

1988 and Bygrave & Timmons, 1992). Based on these data and on research conducted in the US and Europe, researchers developed models of venture capital investment primarily as a process of investing (an example was given in Figure 1.1 above). The models describe the creation, management and liquidation of a single venture capital investment (Tyebjee & Bruno, 1984) or the process of investment including the establishment of the fund, raising of capital, generation of deals, evaluation and valuation of deals, adding value and exit or liquidation of the investment (Bygrave & Timmons, 1992). Thus the existing models cannot exactly be described as anything other than a Western model.

Researchers who have studied venture capital in non-western markets (Megginson, 2004, Leeds & Sunderland, 2003) have acknowledged this lack of a "global model", while other authors often use the US model primarily for comparative reasons (Bahn et al., 2002). However, none of the authors have determined whether this "model" has led to successful investing globally or even whether there really is such a thing as a "global model" of venture capital. No researcher has developed a "global model" and those that have studied this phenomenon have stated that such a model does not exist (Megginson, 2004).

In the context of this dissertation, in section 8.4 we also conclude that there is no global model of venture capital investing.

## **1.7. Conclusion**

In this chapter, we have introduced the Research Question, determined the objectives of this dissertation, provided relevant definitions and examined the reasons for researching the three countries and the South East Asian region. We have determined that South East Asia is a region that is growing in importance as an emerging venture capital market and thus this study will provide additional data and information to fill the gap in the literature on global venture capital from an emerging venture capital market perspective.

The next chapter provides a review of the literature in the field and scopes the literature to determine whether the question of why some venture capital firms are more successful than others has been answered.

## **2. Literature Review**

The objective of this literature review is to 'scope' the literature in the field of global venture capital to establish whether existing literature answers the research question. A comprehensive review of existing literature was performed and key aspects of the literature are reviewed in this section. The review will show that existing literature in the field does not provide an answer to the research question and gives this dissertation the opportunity to contribute additional knowledge to the field of global venture capital. In keeping with the Grounded Theory and case studies methodology (details in section 3), additional literature including on venture capital in general and internationalisation will be considered under the 'Match with Enfolded Literature' heading in section 6.2.

Furthermore, according to the methodology, the researcher must come to the research as "theory-free" as possible (Eisenhardt, 1989, Glaser & Strauss, 1967). While some knowledge of the theory in the field cannot be avoided by doing a literature review, the basic point of the review is not to seek or identify hypotheses or theories to test, but to establish that the research question has not been answered and thereby ensure that this dissertation makes a contribution to the field.

### **2.1 Introduction to the Literature Review**

Current literature on the subject of the globalisation of venture capital and on venture capital in relation to emerging markets of Asia is sparse but growing. Much of the literature is also U.S. or Euro focused (Gibbons et al 1998). A search of the literature has also revealed that there are no studies on the definition or measure of success in GVC, although Bygrave & Timmons (1992) do make some contribution, albeit a very brief one.

The literature however highlights two main themes or theoretical strands that are relevant to this study, primarily Institutional Theory and to a lesser extent the Resource Based View. It does need to be emphasised here that the Institutional Theory strand is specifically stated by several of the authors in the field (Ahlstrom et al., 2000, Bruton et al. 2004, 1999) while the Resource Based View has been used to describe the various research into the field which emphasise intangible resources and global venture capital (Bahn et al., 2002, Heel & Kehoe, 2005, Sagari & Guidotti, 1992). As intangible

resources fit a Resource Based View (Barney, 1991, Galbreath, 2005), I have intentionally grouped this research into this broad heading or classification.

The majority of the research focuses on the impact of the external environment on GVC firms using an Institutional Theory analysis. For example, Bruton et al. (1999) state that the legal framework and market mechanisms in China impact on the success of venture capital investments made there by foreign firms while Sagari & Guidotti (1992) found that tax incentives made a significant difference to foreign venture capital investments in developing countries. The Resource Based View strand of research though not as extensive as Institutional Theory centres on the human resources of the firm. As examples, Barger et al. (1996) discovered that the quality of the fund's managers are the most important factor in a fund's performance, while Pruthi et al. (2003) state that different levels of expertise between foreign and domestic venture capitalists affect the performance of venture capital firms in India.

One important point to note is that the existing research is not from the "*this is what leads to successful GVC investing*" angle, but rather from the "*these are the factors that can impact on GVC investing*". This is an important point for this study because the objective of this dissertation is to seek out the reasons why some firms are successful while others are not. While current researchers look at different issues of GVC, none have specifically looked at firms to determine why some are successful while others are not or even why some firms have failed. This is an important concept, but not one that has been studied in GVC research. Hence there is an opportunity to make a significant contribution to the literature in this field.

Based on this initial analysis, the literature review will be done on a "theoretical strand" basis starting with Institutional Theory and followed by the Resource Based View. The review will scope the existing literature and will provide a conclusion on whether the literature answers the Research Question.

## **2.2 Institutional Theory**

Bruton et al. (2004: 75) define Institutional Theory in the global venture capital literature as follows:

“Central to Institutional Theory is the assertion that institutions in the environment have an impact on a range of commercial activity including the actions people take and those that they even consider possible. The institutional aspects that shape organisational activity include regulatory, normative and cognitive components...”

Thus according to them, the environment has a direct and significant affect on commercial activity and this includes the activities of venture capital firms. However, do any of these institutional elements make a difference to the success or failure of global venture capital firms? We will explore this question based on the three elements that they have identified: the regulatory, normative and cognitive.

### **2.2.1 The Regulatory Element**

The regulatory aspect represents laws and sanctions that regulate the behaviour of firms and individuals for example the setting of rules and their enforcement and include financial and commercial rules of trade and business (Bruton et al., 2004, North, 1990). This includes government support for venture capital; corporate governance; the legal framework including tax laws; investment aspects including financial and accounting requirements and exit opportunities (Bruton et al., 2004). The regulatory aspect can be divided into three further elements: the political, legal and financial elements, which will now be considered in further detail.

#### **Political**

As venture capital firms globalise, they have to choose both markets in which to invest and countries in which to situate their offices. These choices will depend on several aspects, one of which is the political element. Scheela (1994) found that political stability in Asian countries leads to more venture capital investments. This might provide one explanation why politically risky countries are generally avoided by venture capital firms and explain why within South East Asia there are far more investments in Singapore, Malaysia and Thailand than in the Philippines or Myanmar (AVCJ, 2004 and Table 1.1 above). This finding is supported by Bygrave & Timmons (1992) who concluded that the political stability of western governments contributed to the growth of venture capital. The role of a stable government has also been found to be important for the establishment of stable government institutions, especially the legal and regulatory institutions (Megginson, 2004, Sagari & Guidotti, 1992). However, while political stability

can lead to more investments, it does not necessarily explain or lead to successful investing by global firms.

Another political element is government support for venture capital. As governments begin to realise the important role of venture capital in promoting entrepreneurship and economic growth, they have increasingly started providing greater support for venture capital (Dossani & Kenney, 2002). This includes the provision of public venture capital funds, promoting the growth of the venture capital industry and creating policies that foster the growth of the venture capital industry and entrepreneurship (Bygrave & Timmons 1992). Some examples include the Small Business Investment Companies programme (SBIC) in the USA<sup>2</sup>, Malaysian Venture Capital Management<sup>3</sup> a Malaysian government owned venture capital fund and the Technology Investment Fund<sup>4</sup> of Singapore.

Bahn et al. (2002) found that government promotion of the industry played a strong role in the growth of the venture capital industry in Korea. The Korean government abolished restrictive regulations on foreign venture capital investments in domestic venture capital funds, invested public funds in venture capital firms, enacted laws that promoted the venture capital industry and deregulated the venture capital industry to promote competition and grow the industry.

Meggison (2004) though cautions that while government support is advocated, what is necessary is a non-interventionist government. The government should create laws that promote the venture capital industry and fosters entrepreneurship but should not take an active part in the industry by setting up public sector venture capital funds. The EVCA (2001) also discourages direct government venture capital funds as this may result in funding of non-viable firms, creates unfair competition for private venture capital firms and may result in the loss of public funds. While such support may obviously be attractive to foreign venture capital firms, it still does not provide an answer to whether this will lead or has led to successful investing by global firms.

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<sup>2</sup> Website: [www.sba.gov](http://www.sba.gov)

<sup>3</sup> Website: [www.mavcap.com.my](http://www.mavcap.com.my)

<sup>4</sup> Website: [www.tifventures.com](http://www.tifventures.com)



Wang et al. (2002) state that weak regulatory institutions and regulations are a deterrent to foreign venture capital investments. A good business and securities regulatory structure promotes the orderly development and enforcement of rules and regulations (including securities regulations) and encourages the growth of entrepreneurial firms, the primary investment targets of global venture capital investors. Baygan & Freudenberg (2000) found that overly complicated business establishment procedures and onerous and costly compliance burdens are a deterrent to the formation of entrepreneurial firms.

Researchers have also shown that Chinese regulations are confusing, forbidding and restrictive, especially for foreign venture capital firms (Lemberg & Paist, 2000). This makes investing additionally difficult and costly and investors have to engage legal assistance for even the smallest issue. Even with counsel, firms may still end up losing their investments because of these restrictive practices. In India, ultra strict financial and exchange control restrictions deter foreign Venture Capitalists. Thus researchers propose that the removal or restructuring of such strict regulations will encourage greater foreign venture capital participation in the growth of the Indian economy (Dossani & Kenney, 2002).

Many of these issues will certainly benefit global venture capital investors but one point to note is that the political and regulatory institutional structure affects all firms equally, thus unless some firms have some special benefits, these issues do not demonstrate or show why some firms are more successful or why some firms fail. While the research generates some interesting ideas they are not coherent enough and do not provide enough specifics to differentiate success and failure for firms. Hence the political element does not provide an answer to our research question. The next element that we shall consider is the legal element.

### Legal

There are also several legal aspects that researchers believe are necessary for successful global investing. One of these is a good legal framework i.e. not just a set of laws but also the means to enforce them and seek compensation or protection. These include rules that recognise and protect the interests of investors (Megginson, 2004) and ensure that contracts can be enforced if they are breached (Bruton et al, 1999). In China

for example it is currently difficult to enforce contracts including non-competition agreements and other breaches (Pohndorf, 1997).

Another issue is the protection of intellectual property rights, including copyrights and trademarks (International Developments, 2003). For example, China is home to a thriving black market for pirated goods and is a constant problem for American and Western companies, with firms losing more than US\$ 150 million to Chinese made imitation goods in year 2000 (Bhattacharya, 2001). Poor intellectual property protection can therefore be a disincentive to venture capitalists who invest in technology centred ventures (Kenney, 2002).

In another example, recent legal changes in China make it an offence for residents to own shares in offshore companies (Borrell, 2005). Borrell (2005) states that venture capital and private equity firms use offshore companies to invest in Chinese companies as it enables them to list these offshore vehicles on any global stock exchange and also to avoid tax and legal issues in China. However, by preventing Chinese citizens from owning shares in offshore companies China is forcing investors to form Chinese companies which have to abide by the often arcane and restrictive Chinese laws and tax regulations (Borrell, 2005).

While researchers have stated the necessity for a good legal system the research has not explored this from a global venture capital firm success or failure angle and thus provides no support for the research question in this dissertation.

Taxation is another legal issue for GVC as restrictive tax regulations for both the venture capital firms and their investors curtails the growth of the venture capital industry (Dossani & Kenney, 2002). The double taxation of gains, where both the venture capital firm and then their investors are taxed, limits the potential of venture capital investments and prevents institutional and wealthy individuals from investing in venture capital funds (EVCA White Paper, 2001). In studying globalisation of venture capital in both developed (Europe) and developing markets (Israel, East and South East Asia), Schilit (1992) found that many regions formulated new tax policies to successfully encourage the development of the venture capital industry. Germany, Belgium, France and the UK all provided new tax breaks to attract more foreign venture capital investments and



encourage the development of domestic firms. Israel and many Asian nations also adopted very liberal tax laws and this has helped to grow the venture capital industry and has contributed to greater entrepreneurship and economic growth.

The research suggests that liberal tax structures and regulations encourage both the growth of the venture capital industry and also promote economic growth in regions. However, taxation is a generic issue that impacts equally on all firms and do not enable firms to differentiate and create competitive advantages. This element of the legal and tax issues also provide some interesting ideas but these are macro elements that impact on all firms equally and once again are not coherent enough and do not provide any specifics on firm success or failure and hence do not answer the research question. The third element under the regulatory element is financial aspects, which we shall now consider.

#### Financial Aspects

Capital markets are shown to play a part in the success of venture capital investing. Barger et al (1996) found that World Bank investments in venture capital funds returned poor results in emerging markets with under developed stock markets. Under developed stock markets make exits difficult thus curtailing investment returns (Ahlstrom et al, 2000a). The development of stock markets especially in emerging markets is a prerequisite for attracting venture capital investments (Barger et al., 1996).

Black & Gilson (1998) found that countries with a viable stock exchange promote greater entrepreneurial activity and thereby attract more foreign venture capitalists. According to Bygrave & Timmons (1992) venture capital success is often measured by the returns on investment and returns are only possible when venture capitalists exit their investments. Their research showed that the preferred exit is the IPO, which provides the best return on investment, but which requires a viable stock exchange. Even in an early conceptual paper on international venture capital, Patricof (1989) expounded the need for strong over the counter markets to enable venture capitalists to list their portfolio companies. Lemberg & Paist (2000) attributed the success of Silicon Valley to the NASDAQ Exchange because it is a viable and successful stock exchange that allows the listing of technology firms, including many venture capital backed firms in Silicon Valley.

It would appear from this that the availability of a viable exit opportunity is a necessity for successful venture capital investing and that global venture capital firms will be attracted to markets that provide a viable exit. Thus the success of global venture capital investing might be dependent on the markets that they select, but while important again this is a generic issue and will affect all firms in the market equally. Can some firms however differentiate themselves sufficiently to take advantage of markets with viable exits while other firms cannot? The literature does not provide an answer. The researchers also did not consider this from the success or failure of firms issue and while the ideas presented may be relevant, they are not specific enough from the firm point of view and do not provide a comprehensive answer to the research question.

#### Summary of the Regulatory Element

This discussion shows that the regulatory element is more of a macro element of institutional structure that affects all firms equally. While the research generates some interesting ideas they are not coherent enough and do not provide enough specifics to enable firms to differentiate themselves sufficiently to be successful in particular markets. None of these regulatory elements can of themselves lead to success or failure for a particular firm, and hence do not provide an answer to the research question.

The next element to consider under the Institutional Theory banner is the normative element.

#### **2.2.2 Normative Element**

According to Bruton et al. (2004) the normative element is represented by the roles or actions that are derived from professional standards and the influences of practices from the West including "what venture capitalists should be doing and how they should be doing it" (2004:76). The main normative element is the set of normative rules within markets. Normative rules are rules not governed by direct laws but by standard industry practices and regulations. The main ones of interest to Venture Capitalists are accounting practices and corporate governance.

Ahlstrom et al (2000a) found that there is poor corporate governance and questionable accounting standards in China, which makes investing and monitoring of investment portfolios extremely difficult for venture capitalists. Bruton et al (2002) however

discovered that Singapore has evolved better normative institutions, one reason being the openness of the government to foreign venture capital firms and more importantly the influence of Western normative practices on business in Singapore. They contend that the development of good normative rules will reduce risk, a positive factor for investors.

While this may be of importance to venture capital in general, it does not contribute to an analysis of why individual firms are successful. This element of Institutional Theory is not coherent enough to provide a specific answer to the research question. We shall now review the third and final element of the Institutional Theory strand, the cognitive element.

### **2.2.3 Cognitive Element**

These are the elements of business or investment that are closely associated with culture, sometimes also known as socio-cultural norms. These include informal constraints like traditions and cultural requirements, subconsciously accepted rules and customs and taken-for-granted commercial conventions (Bruton et al., 2004). The cognitive element develops over a long period of time and is often embedded within culture, including social issues like "guanxi" (personal contacts and relationships) in China.

Hofstede & Bond (1988) show that cultural issues have a significant effect on global organisations due to the interaction of multiple cultures (sometimes also called cross-cultural issues). Hence it is reasonable to expect that culture also play a role in GVC investing. For example, Ahlstrom et al. (2000a) believe that social controls are far more effective than economic or legal controls in collectivist countries such as China. In their study of Chinese cognitive cultural issues Bruton et al. (1999) found that the "individual" is the key to investments in Chinese entrepreneurial firms because of the need for "guanxi". In Chinese business, personal contacts especially with people in power (government, local councils) is sometimes far more important than management skills. It is a case of "who you know" more than "what you know". Thus when venture capital firms invest in portfolio companies, the founders or the management team must have good guanxi with key officials or it may be difficult to do business in China (Bruton, et al., 2002, Gibbons et al, 1998).

Even in evaluating the investment, venture capitalists find it difficult to obtain accurate information about founders or their firms. Such information is normally available through relationships with key individuals and business networks but venture capital firms that are new to the market will find this information difficult to obtain because they have not built relationships with these individuals (Ahlstrom, et al, 2000b).

The Asian trait of "face" or pride also presents special problems in the negotiation process, valuation of the company and restructuring of the company before investment (Tan, 1998). Offering low valuations or raising your voice during negotiations could be actions that are construed as insulting the founders, hence venture capitalists that are unaware of such cultural norms may lose out on some deals and not even know why. Additionally, in research conducted in Singapore, researchers have found that the predominantly Chinese businesses have long-standing and deeply embedded cultures that resist Western normative and regulatory practices, thus making it difficult for venture capitalists to enforce conformity of their portfolio companies to such Western practices (Bruton et al., 2002).

Pohndorf (1997) believes that grasping the cultural differences in dealing with Asians can be a formidable barrier for Western venture capital firms and one that they have to learn prior to globalising into these economies. Investors who have little or no experience with Asian culture often find it baffling and complicated (Pohndorf, 1997). Wright et al. (2002) believe that one way for global venture capitalists to minimise these cultural barriers is to adopt local cultures, hire local managers who understand and can work around these issues and invest in ventures that have a more forward thinking and accommodating management team. These researchers believe that cultural issues can affect the success of global venture capital investments in some countries and they have had such impact in China (Bruton, et al., 2002) and India (Wright et al., 2002).

Cultural issues therefore may be one element that has an impact on success, but it has not been determined whether the cognitive element of its own can cause success or failure as none of the research conducted above made any such determination. While this does not provide a clear answer to the research question it does present an argument that is interesting though insufficient to answer the research question.

#### **2.2.4 Discussion & Conclusion on Institutional Theory**

The discussion on Institutional Theory presented above has many interesting points that will benefit global venture capital investors when they invest in particular markets. However, with the exception of the cognitive element, these elements are primarily macro elements that impact all firms equally and do not demonstrate or show why some firms are more successful or why some firms fail. While the literature generates some interesting ideas, these are generic in nature and do not provide enough specifics to enable differentiation for firms. Furthermore, none of the researchers concluded that these elements affect individual venture capital firms differently.

The cognitive element however, does present a possible differentiator for individual firms, although none of the researchers considered their research from the individual firm point of view. While relevant, this research was not comprehensive enough to suggest that the cognitive element of itself can lead to the success or failure of individual firms and hence does not provide an answer to the research question.

This literature on Institutional Theory and global venture capital was also not performed on the basis of determining “why” some firms succeed or fail, hence while the ideas presented may be interesting and relevant, they are not specific enough from the firm point of view and do not provide a comprehensive answer to the research question.

### **2.3 Resource Based View**

The idea behind the Resource Based View is that “firm-specific skills, competencies, and other tangible and intangible resources are viewed as the basis for the competitive advantage of a firm” (Maula, 2001). Barney (1991) is a strong proponent of the concept of a Resource Based View and believed that long-term competitive advantage can only be sustained with resources that are valuable, rare, imperfectly imitable and without strategically equivalent substitutes.

Galbreath (2005) divided resources into two fundamental categories - tangible and intangible resources. He defines tangible resources as assets that are relatively easy to identify and include financial and physical assets as well as its organisational and technological resources. He divided intangible resources into two categories – assets



and skills. Galbreath's (2005) definition of 'assets' includes unique routines and practices that have evolved and accumulated over time. These include human resource experience, skills and capabilities; innovation resources like technical or scientific skills and reputation resources such as brand name and firm reputation for fairness and reliability. He defined 'skills' as competencies or skills that a firm employs to transform or leverage on its tangible and intangible resources to bring about a desired end. This would ordinarily include outstanding customer service, excellent product development capabilities or superb innovation processes.

For venture capital firms, tangible resources would include the funds that they have for investment and their organisational and technological resources, which could include their assessment skills, as defined by Smart (1999). Smart suggests that human capital is not an 'intangible' factor but that it is a 'tangible' resource because like other forms of capital it has properties that can be assessed and appraised. Thus to him human capital has a value that can be determined based on the effectiveness of the assessment methods that are used and this idea is endorsed by Erikson & Nerdrum (2001). Thus organisational resources such as the assessment methods of the firm's managers are tangible resources. However, their research was based on the venture capitalist's assessment of their portfolio investment's management teams and not on the venture capital firm itself, so this idea has to be developed further in assessing venture capitalists themselves before it can be used to determine firm success or failure.

In the area of resources, global venture capital research seems to be centred more on the intangible resources of the firm. Heel & Kehoe (2005) in their research on why some private equity firms do better than others stated that the most important factor for firm success was that the partners of the private equity firms seek out expertise before committing themselves to a private equity deal. They found that in 83 percent of the best deals, the initial step for investors was to secure privileged knowledge, which included insights from the board, management or a trusted external source. This seems to indicate that a "knowledge- based view" could be significant to the success of the deal. Barger et al (1996) found that the quality of fund managers, their capabilities and skills played a major role in the success of venture investing. Other authors cite the need for managerial sophistication (Bruton et al, 1999), management skills (Sagari & Guidotti, 1992), venture capital experience and skills (Sapienza et al, 1996) and the need for

specialists to evaluate and manage investment portfolios (Baygan & Freudenberg, 2000).

The research indicates that in globalising their firms, venture capitalists must ensure that they are managed and staffed by competent, experienced and skilled managers to ensure the success of their investments. This might however be considered a tautology as it goes without saying that globalisation is a complex phenomenon and competent management is necessary for success, but venture capital as a specialist field does require special skill sets (Barger et al., 1996) and this may set it apart from the normal global firm.

Other aspects that GVC firms need to consider are the networks of their managers as this is of particular importance in the Asian context. In China this is particularly complicated because of the concept of "guanxi" or the need for "connections" or "networks" with important people (Bruton et al, 1999). In the South East Asian context, Gibbons et al. (1998) found that venture capitalists in the region are attracted to the networks of the predominantly Chinese businesses in Singapore, Malaysia, Thailand and Indonesia. This supports the notion that networks are important in the Asian context. Additionally, Boocock (1995) found that in Malaysia, Chinese controlled companies have traditionally sought to retain control within the family network thus making it more difficult for venture capitalists to invest in these companies. It can be argued that networking itself is a specialised skill and not many people are competent at it. It may also require understanding of local knowledge and cultures, all part of the armoury of a global venture capital firm manager.

Finally, Bahn et al. (2002) believe that the training and education of venture capitalists also need to be considered when globalising, both for existing managers and new managers who will be hired in their new foreign offices. In countries where there is specialised training for managers, it may be possible to hire competent staff but when this is not available then extra effort may be required to train staff in the intricacies of venture capital fund management.

It is obvious from the above discussion that human resource skills and expertise are considered an important resource of the successful GVC firm. These researchers



provide a strong argument that the Resource Based View can make a difference in the success of global venture capital investing. However, while they make several claims about the need for skills and expertise, only Heel & Kehoe (2005) make a direct claim that the knowledge base of the firm is necessary for success.

Thus while there is evidence, this evidence is not complete because the researchers did not conduct their research on the basis of whether it actually led to success or failure, thus leaving a gap in the research that needs to be filled.

## **2.4 Summary of the Literature Review**

This initial literature review has shown that there are several aspects of global venture capital that have been considered by researchers in different forms, both theoretical or just as ad-hoc factors that they deem necessary for effective (but not necessarily successful) globalisation. Many of the researchers present their research from the 'impact of the environment on investing' perspective, for example the claims about the impact of political and legal factors on investing and the need for strong capital markets. Thus most of the research is from a 'macro' viewpoint and thereby make claims that are more often than not generic in nature and impact on all firms equally. Few of these researchers have done their research from the 'what makes these firms successful' viewpoint, the viewpoint that is taken in this dissertation. Hence fundamentally, most of the research does not present a success or failure viewpoint other than Heel & Kehoe (2005) who specifically point out factors that lead to success.

One point that also needs to be made is that many of the factors that have been considered by these researchers affects venture capital investing in general and not just global venture capital investing. Although they take the global venture capital investments or cross-border investing perspective, many of their conclusions would also apply to general venture capital investing and this does present a problem for this dissertation. As this dissertation is about the success or failure of foreign venture capital investors in emerging markets, the research must be more focused and targeted and must present a view that applies particularly to global venture capital investors. There isn't adequate evidence of this in the existing literature.

Thus we can conclude that existing research in the field of global venture capital is not adequate to answer the research question and thus this study has the opportunity of adding to the knowledge in the field.

## **2.5 Analysis of the Literature and Proposition for the Research Design**

Based on the literature review the following can be surmised:

- a) Most of the research has been conducted from a 'macro' perspective with conclusions that are generically applicable and do not offer an answer to the research question.
- b) There is a shortage of empirical work in relation to the perspectives of the actors in the globalisation of venture capital, the fund managers themselves, which provides this research an opportunity of developing empirical studies from a new perspective, an "*abductive*" research strategy which uses the actor's own language and meanings.
- c) The literature reviews have not been very clear on the type of research strategy used yet some authors like Bruton et al (2002, 2003) have mentioned that the field is open to greater exploratory studies. This supports the notion that this research has an opportunity to use an exploratory, inductive research strategy.
- d) There is also no firm theoretical underpinning as only two major theoretical bases have been used; Institutional Theory and Resource Based View. As the theory in this area is limited, this research would be ideal for generating propositions.
- e) While some of the literature on GVC have been qualitative and based on face to face interviews, the interviews have been used as an avenue to "prove" a theory or hypotheses, not as an avenue for discovery and understanding of the very diverse aspects of successful venture capital investing.

We can therefore conclude that the following criteria are important elements that should form part of the research design:

- a) An exploratory form of research is desirable because it is a relatively new field of research
- b) Because of the lack of theory, there is a need for a research design that leads to generation of propositions

- c) The research should be inductive to enable discovery of new themes, strategies, thoughts or ideas
- d) The research should not be overly structured to enable discovery
- e) It should preferably be based on the social actor's or practitioner's own language and meanings, as much of the current research is conceptual or based on the researcher's ideas, thoughts and hypotheses. Hence the use of an abductive research strategy can be useful.

This dissertation will now proceed to the methodology and research design stage in section 3.

### **3. Methodology and Research Design**

It has been determined from the literature review section that an exploratory research design is suitable for this dissertation. This section will therefore explain the choice of the research design and the basis of the methodologies that will be employed. It will be followed in section 4 by an explanation of the use of the methodology for the actual analysis with examples where the interaction between the research design and the analysis will be shown in greater detail.

#### **3.1 Requirements of the Research Design**

The objective of the dissertation is to answer the following research question:

*“Why are some foreign venture capital firms more successful in global venture capital investing than others and how do they ensure this success?”*

Thus the choice of a research design must be considered on several aspects.

- a) Firstly, the research design must enable us to answer a broad research question.
- b) Secondly, as this dissertation is not about testing hypotheses or propositions, the use of a qualitative methodology may be more appropriate than a quantitative one.
- c) Thirdly, the objective of this dissertation is to answer the above question and this answer will be in the form of a proposition or propositions; hence the research design must enable us to develop these propositions.
- d) Finally, since global venture capital investing in South East Asia is a relatively new phenomenon an exploratory methodology is desirable. Mintzberg (1977) supports the use of an exploratory methodology in an emerging field of research. He believes that in the early stages in the study of a phenomenon there is a need to use more exploratory approaches and an inductive methodology when there is a need to build theory.

Accordingly, this dissertation will use an inductive, open-ended qualitative research design that will enable us to explore and discover propositions and theories. The main method is the use of interviews conducted using the language of the social actors

themselves, the global venture capital investors. However, in the interest of time, especially the venture capitalists time, it will be conducted via semi-structured open-ended interviews. This semi-structured interview will allow for better control yet will also allow the respondents the freedom of expressing their thoughts and opinions. To ensure robustness, the interviews will be supported with additional triangulated data from multiple sources. The research design must also be robust, relevant and able to stand the test of meeting the high standards required of a researcher in this challenging field of work.

### **3.1.1 Inductive Research Strategy**

The definitions and method of the inductive research strategy used in this dissertation have been adopted from Blaikie (2000). He outlines three principles for this strategy – accumulation, induction and instance confirmation. This requires the accumulation of data through observations and experiments, producing general laws by applying inductive logic to the data and generalisations based on the number of instances of it that have been observed. The data is obtained using objective methods without preconceptions.

The strategy itself consists of three main stages:

- a) All facts are observed and recorded without selection or guesses as to their relative importance
- b) These facts are analysed, compared and classified, without using hypotheses
- c) Then generalisations are inductively drawn as to relations between the facts

### **3.1.2 Abductive Research Strategy**

In addition to the inductive research strategy this dissertation also uses an abductive research strategy, which Blaikie (2000: 114) defined as "...constructing theory that is grounded in everyday activities and/or in the language and meanings of social actors" (i.e. in this case venture capital firm managers).

It has two stages:

- a) Describing these activities and meanings; and,

- b) Deriving categories and concepts that can form the basis of an understanding or an explanation of the problem at hand

Thus the research will generate accounts from the players in the field of venture capital, the venture capital firm managers, using their own meanings and language to derive both technical concepts and theories. The use of the actor's language and not the researcher's assumptions opens up the research to the possibility of new discoveries. This is however not easy to achieve as it requires the researcher to have a strong understanding of the actor's language and knowledge of the different meanings that can be attributed to the use of various concepts and issues.

Having spent 4 years as a consultant in the field of venture capital, advising international venture capital firms in Malaysia and Singapore, I have been immersed as a practitioner in this field and thus have better knowledge of the language used as well as the meanings and inner mechanics of the field. This will be of great assistance in relating to the social actors of this research and overcoming the handicap of researchers who have either not been involved or have had very limited practical experience in this very specialised field. Bringing one's prior experience to the research has been recognised as beneficial and is advocated by Yin (1994).

Another benefit of being an 'insider' is that it enables the researcher to negotiate access to research sites and top-level managers where the credibility of the researcher is important and this is particularly the case in the 'society' of venture capitalists that this dissertation examines. Top-level managers such as the Partners, Managing Directors and Country Managers are often difficult to access for the novice researcher but being an insider enabled me to obtain access to these managers.

Hence my experience and knowledge of the field and networks in the industry are a source of strength and benefit in the research and analysis in this thesis as well as the understanding of the deeper issues in this industry.

### **3.1.3 Inductive Research Strategy And Grounded Theory**

The strength of using the inductive research strategy is that in a new under-explored field such as this where theory development has been limited, this research strategy will

provide an avenue for generating propositions, to either develop new theory or verify existing ones, as it is open and exploratory. It also allows for the development of existing and new concepts, which is the basic starting point of GT.

The methodology that is used in this inductive research strategy is Grounded Theory as originally advocated by Glaser & Strauss (1967). Grounded Theory can also benefit greatly from the use of the abductive strategy, as this is a good method of discovering theory based on the respondents' own definitions and language, thus opening up the discovery process necessary for this method.

To develop theory using GT, some basic concepts were used to provide initial direction for the study. These include concepts of globalisation, firm internationalisation, investment strategy, national and global environments, measures of success and other concepts. However, the use of such concepts is only as a basic guide in beginning the research and not to lead the respondents (Eisenhardt 1989, Glaser & Strauss 1967). The concepts and categories that were discovered through interaction with respondents and informants were the most important aspect of this research.

Many of these concepts will already be part of the psyche of the venture capital firm manager, and they will normally have used some of these ideas as part of their strategy for investment, so the use and understanding of these concepts may be relatively easy for them (although the research later showed that some concepts were in fact not used by them at all, like the concept of a GVC model).

While managers from Western nations, backgrounds or training may have some idea of these concepts; their understanding of it may be different from others and from the researcher. Also there is no such thing as one easily defined concept, as even the literature and books have varying definitions of such concepts for e.g. globalisation and internationalisation. Many studies use them interchangeably (Lockett & Wright, 2002) so the venture capital managers' understanding of this too may vary. As it is an abductive study, however, it is possible to establish their understanding of these varying concepts, itself a valuable discovery.



As advocated by Glaser and Strauss (1967), no theories or hypotheses were proposed for the research design. Propositions were discovered from the data and empirical evidence and will be presented in sections 6 (Generating Propositions) and 7 (Developing Meta-Propositions) of this dissertation.

#### **3.1.4 Case Studies**

The research could have been done in many ways including interviews with venture capitalists, using surveys or studying documentary and archival evidence. A methodology that uses a combination of these methods (triangulation) would also be desirable. The methodology that has been selected for this dissertation is the use of case study research using a combination of both qualitative and quantitative data.

Case studies have been advocated to answer “why” questions. Yin (1994: 1) states:

“... case studies are the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context”

Firstly, the question that we seek to answer is “*why* some foreign venture capital firms are more successful than others and *how* that success is achieved. Secondly we have no control over events especially why and how venture capital firm managers make investment decisions or formulate strategies that lead to success or failure. Finally, the focus is on a contemporary versus a historical phenomenon and the context is real-life, as this dissertation seeks answers from venture capital managers in the field.

Eisenhardt (1989: 532) also advocates using case studies as it “is especially appropriate in new topic areas”. As the study of GVC in South East Asia is a new area of research the use of case studies is thus an appropriate method. She also advocates the use of case studies to develop hypotheses and theories in new fields of research which makes case studies an especially suitable methodology for this dissertation.

Finally, the selection of case studies is very appropriate as we are studying the phenomenon of why some venture capital firms are more successful than others. Determining the success of firms can be best done by in-depth analysis of selected venture capital firms, which are then made the case study. By interviewing the managers of the venture capital firms, studying relevant documentation and archives, further

interviewing their investee firm managers and then making the relevant comparisons we can make viable and rigorous in-depth analysis of why they are successful. Thus we do not just take them at their word i.e. because they 'talk the talk', but we can also verify their comments using the other means to determine whether they also 'walk the walk', i.e. through their actions and actual investments.

This triangulation of multiple data sources is an important element of this analysis. By merely interviewing managers we may hear their opinions on why they are successful, but to actually determine if that is the reason why they are successful we also want to see whether the actions they have taken match their opinions. If they say one thing but do another, then we have discovered something new. Too often survey questions take the managers at their word but further study may betray those words to be meaningless as their actions may be contrary to their words.

As an example, in the interviews the managers of Softbank Emerging Markets (one of the cases in this dissertation) said that they have relevant expertise in their industry and invest in markets that they have experience in. However, one manager has only had corporate finance and consulting experience while the other two managers only have telecommunications experience and none of them have any experience in India, yet they were looking for investments in a business software firm and were seeking investments in India, showing that their contention of relevant experience does not fit their actual investment space or market space. Thus we have discovered something contrary that may have important implications for the study.

The case study method allows for the construction of findings from multiple sources of data and aids in the discovery process (the multiple sources of data will be explored later in section 3.5.2 below). Furthermore, multiple cases enable comparative studies to be made making the study more robust and add to the reliability of the findings.

### **3.2 Research Design Protocols and Procedures**

To ensure a rigorous research design several protocols and procedures were adopted and integrated into a new research framework. The basis of the research design is the case study protocols as proposed by Eisenhardt (1989) and Yin (1994). The methodology for the case studies was the GT procedures advocated by Corbin &

Strauss (1990) and Locke (2001). These protocols and procedures provide the basic structure for the framework.

This comparison and adoption of recognised procedures and protocols will enable the research design to be properly structured incorporating all the elements proposed by the various authors culminating in a rigorous design and reliable findings.

Table 3.1 details the different methodological designs and procedures advocated by Eisenhardt (1989), Yin (1994) and Corbin & Strauss (1990) and the Methodological Framework that has been adopted for this dissertation. The rest of section 3 will discuss the use of these procedures in this dissertation with regular references to the Table 3.1 Methodological Framework.

**Table 3.1 – Methodological Framework and Comparison Of Methodological Designs**

	<b>Building Theories from Case Study Research Eisenhardt (1989)</b>	<b>Grounded Theory Research: Procedures, Canons &amp; Evaluative Criteria Corbin &amp; Strauss (1990)</b>	<b>Case Study Research Designs &amp; Methods Yin (1994)</b>	<b>Action Points for Thesis</b>
A	Define the Research Question	No comments on Research Question	Define the Questions – Most appropriate for How & Why questions	Research Question: "Why are some foreign VC firms more successful in global VC investing than others & how do they ensure this success"
B	Possible A-Priori Constructs but neither Theory or Hypothesis to be used	<p>Concepts are the basic unit of analysis</p> <ul style="list-style-type: none"> <li>- Concepts must be abstract</li> <li>- No theories to be used</li> </ul> <p>Categories must be developed and related</p> <ul style="list-style-type: none"> <li>- Concepts must relate to the same phenomenon</li> <li>- Categories are cornerstone of developing theory</li> </ul>	Propositions recommended but can be forgone if theory development in field is inadequate	<ul style="list-style-type: none"> <li>- No hypothesis to be used</li> <li>- Concepts include: Globalisation, Success factors, Environmental factors – political/legal, economic/financial, etc</li> <li>- Categories: To be discovered from interviews</li> </ul>
C	<p>Select Cases</p> <ul style="list-style-type: none"> <li>- Specify population</li> <li>- Theoretical sampling</li> <li>- Choose extreme/polar cases</li> </ul>	<p>Sampling proceeds on theoretical grounds</p> <ul style="list-style-type: none"> <li>- Based on concepts, their properties, dimensions &amp; variations</li> </ul>	Unit of analysis – the firm Sampling based on theoretical sampling	<ul style="list-style-type: none"> <li>-Population: Foreign VC firms in Malaysia, Singapore &amp; Thailand</li> <li>-Set Qualifying criteria for theoretical sampling of firms;</li> <li>-6 cases to be selected</li> </ul>
D	<p>Crafting Instruments and Protocols</p> <ul style="list-style-type: none"> <li>- Multiple data collection methods</li> </ul>	<p>Multiple sources of data (Glaser &amp; Strauss, 1967)</p>	<p>Case study protocol</p> <ul style="list-style-type: none"> <li>- Multiple data collection methods</li> <li>- Create a database</li> <li>- Maintain a chain of evidence</li> </ul>	<ul style="list-style-type: none"> <li>-Multiple data collection methods – interviews, documents (annual reports, IPO docs), archives, interview with investee firms.</li> <li>-Multiple interviews with multiple managers of each firm.</li> <li>-Construct validity, External validity &amp; Reliability considered</li> </ul>
E	<p>Entering the field</p> <ul style="list-style-type: none"> <li>- Overlap data collection &amp; analysis</li> <li>- Flexible &amp; opportunistic data collection methods</li> </ul>	<p>Data collection &amp; analysis are interrelated processes</p> <ul style="list-style-type: none"> <li>- Analysis begins with first data collected</li> <li>- Write theoretical memos</li> </ul>	Case study protocol determines the procedures and methods	<ul style="list-style-type: none"> <li>-Analysis begins with first data collected</li> <li>-Overlap of data collection &amp; analysis</li> <li>-Field Notes/ Theoretical Memos to be kept</li> </ul>

(cont'd)



F	Analysing Data - Within case analysis - Cross case pattern search	1) Analysis makes use of constant comparison 2) Patterns & variations must be accounted for 3) Process must be built into theory	1) The logic linking data to the proposition - Pattern matching. 2) Criteria for interpreting the findings - Contrasting patterns lead to contrasting propositions - Look for alternative (rival) findings & propositions - Analyse all major rival interpretations	1) Within Case analysis - Build familiarity of each case - Pattern recognition & matching 2) Cross-case pattern matching 3) Look for contrasting patterns & rival propositions 4) Match patterns across data Identify Factors or Reasons
G	Shaping hypothesis - Sharpening of constructs via refining definition & building evidence to measure constructs in each case - Iterative tabulation of evidence for each construct - Replication logic across cases	1) Hypotheses about relationships among categories should be developed & verified during the research process - Revise & recheck relationship hypotheses - Constant revision - Search for negative & qualifying evidence  2) Broader structural conditions must be analysed	1) Replication logic for multiple case studies - Literal replication - Theoretical replication	Generating Propositions 1) Constant comparison bet data & constructs to converge on single well defined construct 2) Use of tables to summarise & tabulate evidence of constructs 3) Look for both literal replication & theoretical replication  Formulate propositions
H	Enfolding Literature - Compare with conflicting literature - Compare with similar literature	No comments on Enfolding Literature	Literature Comparison - Interpretation is enhanced by relating findings to existing literature - Compare with rival propositions in literature	Match Propositions to Literature - Compare emergent constructs with existing literature - Also look for comparison with literature in similar fields – globalisation of business, etc.
I	Reaching Closure – Theoretical saturation (i.e. when marginal improvement is small)	No comments on Reaching Closure	Review of Draft Case Study Report by Participants & Informants	- Look for theoretical saturation - Draft case for participant review
J	Final product: - Concepts - Conceptual framework - Propositions - Mid-Range Theory	No comments on Final Product	Composing the Case Study Report: Illustrative structures for compositions - Linear analytic - Theory building	Final Product  Meta-proposition or propositions

### **3.2.1 Grounded Theory, structured coding and creativity**

While Glaser & Strauss (1967) were the first to introduce the concept of GT to research methodology, the book itself did not introduce clear procedures or protocols that can be followed by researchers to produce a rigorous design. Since then several authors have written about GT, but the work of Corbin & Strauss (1990) and particularly Locke (2001) in terms of management research, provide a clearer guide on the procedures to be adopted for GT research. Glaser & Strauss have also gone their separate ways and have introduced different methods of GT, with Strauss (Corbin & Strauss, 1990) advocating a more formalised methodology while Glaser (2004) continues to advocate a creative, less formalised methodology.

While this dissertation adopts Corbin & Strauss's (1990) formal procedures to set up the research design, together with Eisenhardt (1989) and Yin (1994), the philosophy and spirit of GT and creativity will continue to be adopted as well. Hence while the pattern matching method of generating concepts, categories and theory is used, the more structured coding procedure put forward by Corbin & Strauss (1990) will not be adopted in line with Glaser's (2004) belief that GT as a creative methodology should not be overly structured. Even without the structured coding procedures, GT is a viable and robust methodology especially when combined with case studies and with the well-adopted process presented by Eisenhardt (1989).

The research design will adhere to the steps given by Eisenhardt (1989) and incorporate GT and case study protocols into these steps as follows.

### **3.2.2 Defining the research question**

The first step in the Framework is to define the research question and this is shown by row 'A' of Table 3.1 as follows:



	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
A	Define the Research Question	No comments on Research Question	Define the Questions – Most appropriate for How & Why questions	Research Question: "Why are some foreign VC firms more successful in global VC investing than others & how do they ensure this success"

The first step proposed by Eisenhardt (1989:536) is to define the research question as this focuses the effort of the research. Yin (1994) also proposed that case study analysis is most suitable for the "why" and "how" type of questions. Hence the decision to use the case study methodology hinges on whether it is suitable for the research question on hand and in this situation it is indeed suitable as will be seen below.

The research question has been stated earlier but is reproduced below for discussion.

*"Why are some foreign venture capital firms more successful in global venture capital investing than others and how do they ensure this success?"*

This research question can be considered from two aspects. The first question is why some firms are more successful than others. This is the core of the dissertation, the "why" question, as this dissertation attempts to find the reasons that lead to successful investing by venture capitalists globally. Thus the focus of the interviews and the a-priori concepts will emphasise this aspect of the question.

The second aspect is to find out "how" they ensure this success. In selecting cases, three "successful" cases were selected, based on the fact that they have been financially successful and they have been leading players in these markets for an extended period of time<sup>5</sup>. If venture capitalists are successful, they must be doing something to ensure this success over a period of time, hence the "how they ensure success" question. To verify if the reasons given for success are valid, it is also pertinent to study failed firms<sup>6</sup>. If the firms that failed did not have the elements that were pointed out by the successful firms or if they went counter to the strategies of the successful firms then we have

<sup>5</sup> The criteria for case selection were primarily financial success and length of time the firm was operating. Complete details and reasons for these criteria are provided in section 3.8.

<sup>6</sup> Criteria for selection of failed firms are the closure of the firm in the country or region, details are also provided in section 3.8.



additional verification that it is a valid point. Hence we will also study two failed foreign firms in this dissertation.

This research question allows for the development of a robust research design and ensures that the findings and especially the interviews are focused and relevant. Also being primarily “why” and “how” questions, the case study methodology is a suitable methodology to follow.

In summary, the two elements of the research question are:

- Why some foreign firms are more successful than others, and;
- How they ensure this success

### **3.2.3 Possible a-priori constructs and categories**

The next step is shown by row ‘B’ in Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
B	Possible A-Priori Constructs but neither Theory or Hypothesis to be used	Concepts are the basic unit of analysis - Concepts must be abstract - No theories to be used Categories must be developed and related - Concepts must relate to the same phenomenon - Categories are cornerstone of developing theory	Propositions recommended but can be forgone if theory development in field is inadequate	- No hypothesis to be used  - Concepts include: Globalisation, Success factors, Environmental factors – political/legal, economic/financial, etc  - Categories: To be discovered from interviews

Eisenhardt (1989) advocates that the process starts with the use of possible a-priori constructs as it provides better grounding of construct measures. Of constructs she says (Eisenhardt, 1989:536):

“... it is valuable because it permits researchers to measure constructs more accurately. If these constructs prove important as the study progresses, then researchers have a firmer empirical grounding for the emergent theory”.

However, it must be noted that these are only tentative constructs and may be discarded at any time if they prove to be less useful or invalid.

The use of constructs is equivalent to the use of concepts in GT methodology. Corbin & Strauss (1990) and Glaser & Strauss (1967) stress that concepts are the basic unit of analysis, the basic building blocks of GT methodology. As Corbin & Strauss (1990:7) state, "A theorist works with conceptualisations of data, not the actual data per se." Further, they stress that; "... incidents, events and happenings are taken as, or analysed as, potential indicators of phenomenon, which are thereby given conceptual labels" (Corbin & Strauss, 1990:7). Thus the use of concepts is the key to developing GT, and empirical findings must be construed as appropriate concepts before being analysed in GT.

Once constructs have been identified, then the constructs that pertain to the same phenomenon will be grouped to form categories, which are higher in level and more abstract than the concepts that they represent. According to Corbin & Strauss (1990:7), "Categories are the cornerstone of a developing theory. They provide the means by which a theory can be integrated."

### **3.3 Categories and the Constant Comparative Method of Glaser & Strauss**

Glaser & Strauss (1967) provided a procedure for the development of categories and concepts called the constant comparative method. There are three stages to the constant comparative method as follows:

- a) Comparing incidents applicable to each category,
- b) Integrating categories and their properties
- c) Delimiting the theory

#### **3.3.1 Comparing incidents**

The three stages mentioned above involve coding incidents in the data into categories as they emerge in the data. This does not require a formal process, as even a "noting of categories on margins" is sufficient, even though more elaborate means can be used (Glaser & Strauss, 1967:106). These coded incidents or categories are then constantly compared with previous incidents in the same and different groups (or cases). These constant comparisons then start to generate theoretical properties of the categories.

As an example, in the cases that were studied in this dissertation, all participants mention that experience and expertise are necessary ingredients for the success of the firm to be sustained. This confirmation of the important category of the resource base of the firm as a necessity for success leads to the proposition that the Intangible Resources of the firm are one key to the success of the VC firm.

Glaser & Strauss (1967) also state that as categories and their properties emerge the analyst will discover two types of categories, those that he has constructed himself and those that have been abstracted from the language of the research situation. Again using the example above, none of the participants specifically mention the Intangible Resources of the firm, merely that experience and expertise are key components of success. This construction of the Intangible Resources is the researcher's construction based on literature review and prior research works.

However one category that has clearly been abstracted from the language of the research situation is that "dealflow" is also a key component of their success. Dealflow has not been specifically identified in prior research or in the literature review and was not a category that could have been constructed other than from the language of the research situation. In fact the word 'dealflow' is commonly used by the participants and led to the development of a category called "dealflow" which would otherwise not have been considered.

### **3.3.2 Integrating categories**

The next step is the integrating of the categories and their properties via constant comparisons. In this way several categories may over time be integrated into a more precise category that makes more conceptual sense. Hence although several participants do not mention specifically that the viability of an exit is important for success, the fact that they speak of listing their investee companies, or seek acquisitions for them or even when they speak of rates of return on an IPO, this leads to the integration of the different categories of an IPO or acquisition or return rates into an "Exit" category. This allows for easier analysis and comparisons.

Several categories can also be integrated into a major category if that allows for easier analysis. This can happen when two or more categories can fit into one easily identified

category. For example the constant comparisons of interview transcripts led to two categories the first being "identifying and securing deals" and the second being "availability of deals in the market". Being similar in principle, these two categories can be placed under the major category of "Dealflow".

Similarly, the interview transcripts revealed the following five categories:

- a) Management team experience
- b) Expertise and knowledge base
- c) Knowledge sharing
- d) Market knowledge & continuous learning
- e) Independence of the management team.

These five categories relate to management and human resource aspects and could be classified under the major category of the Resource Base of the firm. It has to be stated here that none of the major categories of "Exits", "Dealflow" or "Resource Base" were taken from the literature review or were the researcher's creation, they are used in this category development stage simply to group the categories to make them more manageable and for ease of analysis. This is also necessary for the delimiting of theory as explained in section 3.3.3 below. All the categories were extracted from the interview transcripts (Appendix B). As the transcripts are colour coded, each of these categories can be traced back to each individual interview.

Thus the constant comparison method is valuable in making sense of the large amount of data, enabling the development of categories and sub-categories and through in-depth analysis of the categories it allows one to better develop propositions out of voluminous data.

### **3.3.3 Delimiting the theory**

The objective of delimiting theory is to prevent the constant comparative method from becoming an overwhelming task. According to Glaser & Strauss (1967) delimiting occurs at two levels: the theory and the categories. As major modifications become fewer and fewer as the comparisons progress the theory solidifies. The aim is to formulate theory (or in this dissertation, propositions) based on a smaller set of higher level concepts which is achieved by discovering "underlying uniformities in the original set of categories

or their properties..." (Glaser & Strauss, 1967:110). This is also termed 'reduction' by Glaser & Strauss and this enables the researcher to achieve "two major requirements of theory: (1) parsimony of variables and formulation, and (2) scope in the applicability of the theory to a wide range of situations" (Glaser & Strauss, 1967:111). It is also important to reduce the original list of categories for coding.

Another factor for further limiting the list of categories is what Glaser & Strauss (1967) call "theoretical saturation". Here the researcher has to determine whether the next applicable incident points to a new aspect and if it does it is coded and compared, if it does not the incident is not coded as it only adds to the bulk of data and nothing to theory. Theoretical saturation suggests that what has been missed is probably minor and will not have much affect on the theory anyway (see section 6.3 for a full discussion on theoretical saturation). Theoretical delimiting also allows the researcher to focus only on data that are relevant to the categories.

### **3.4 Additional methods for developing categories**

While Glaser & Strauss (1967) provided some procedures for developing categories through the use of the constant comparative method other writers have also made significant procedural contributions. This is especially so in providing a more systematic and practical process for the development of categories.

#### **3.4.1 Developing Categories**

The work of Turner (1981) is especially useful in developing categories in Grounded Theory research especially in a more systematic analysis of the data and development of the relevant categories and concepts. He provides a nine-stage sequence of Grounded Theory analysis as follows, to which have been added examples from the results of this research in italics. Full details of the categories as discovered from the interviews are provided in Appendix A, with relevant examples given below.

- a) After some exposure to the field setting and some collection of the data the researcher starts to develop 'categories' which illuminate and fit the data well. *In this study beginning with the first interview with TS Yong, some categories like experience, expertise and deal flow began to emerge.*



- b) The categories are then 'saturated', meaning that further instances of the categories are gathered until the researcher is confident about the relevance and range of the categories for the research setting. There is recognition in the idea of 'saturation' that further search for appropriate instances may become a superfluous exercise. *As more and more interviews were conducted similar categories emerged in many of the interviews. Hence besides TS Yong almost every other respondent also mentioned experience, expertise and dealflow in the interviews leading to possible saturation because one can expect that further interviews will continue to show similar categories.*
- c) The researcher then seeks to abstract a more general formulation of the category, as well as specifying the criteria for inclusion in the category. *Hence, from the experience and expertise categories it is possible to abstract a more general formulation of an Intangible Resources general category of which experience and expertise are sub-categories.*
- d) These more general definitions then act as a guide for the researcher as well as stimulating further theoretical reflection. This stage may prompt the researcher to think of further instances which may be subsumed under the more general definition of the category. *Hence the general Intangible Resources category led to the formulation of a Resource Based Theories and also to a Core Competence theory, which also adopts many of the sub-categories like experience and expertise.*
- e) The researcher should be sensitive to the connections between the emerging general categories and other milieu in which the categories may be relevant. *Again here we can see the connections between the experience and expertise sub-categories with core competency and dynamic capabilities.*
- f) The researcher may become increasingly aware of the connections between categories developed in the previous stage and will seek to develop hypotheses about such links. *This led to the formulation of propositions in this dissertation.*

- g) The researcher should then seek to establish the conditions in which these connections pertain. *As an example connections made between categories like knowledge sharing and the lack of expertise and the failure of firms like SBEM and Transpac.*
- h) At this point the researcher should explore the implications of the emerging theoretical framework for other, pre-existing theoretical schemes, which are relevant to the substantive area. *This is done by following the framework and matching the findings to enfolding literature and related theories.*

While Turner (1981) provided a procedure to develop categories, there is still the need to identify which bits of the data are relevant to which category and how they will be classified within the many categories. We also need a procedure for adapting these categories to the data.

#### **3.4.2 Classifying Data into Categories and Concepts**

As further explained by Turner (1994); in defining categories and concepts, the researcher has basically to look for and divide facets of the available data into segments which are given labels, names or codes; then he has to look for and accumulate these recurring codes, develop abstract definitions to specify the properties associated with these codes and then identify links between the codes. Dey (1993) provides a clearer explanation of how this can be done via his formulation of a circular or spiral process involving three activities: describing, classifying and connecting.

Firstly, in describing the phenomenon we need to consider the context of the action, the intentions of the social actors and the processes through which the social actions and interactions are sustained.

Classification is however, slightly more complex and is achieved by creating categories, assigning categories to the data and splitting and splicing categories. As Dey (1993: 44-5) says:

"Classification is a conceptual process. We don't just break the data into bits; we also assign these bits to categories or classes, which bring these bits together again, if in a novel way. Thus all the bits belonging to a particular category are brought together and in the process we begin to discriminate more clearly



between the criteria for allocating data to one category or another. Then some categories may be subdivided and others subsumed under more abstract categories”

Dey (1993) has provided a clear and precise procedure for looking at all the bits of information and to then take them apart, classify them into categories, re-classify them if necessary and then develop a framework using the information that is now available.

In this dissertation this is precisely how the classification is done. Bits of information are taken from the transcripts of different participants as they relate to a particular category, say “experience” or “expertise”. These bits are then tabulated and compared and then may be subdivided, subsumed or better defined into other categories. Information that are not relevant or those that are repeated are then discarded. This is firstly done on a within case basis and as more cases are explored and the information within those cases considered, more precise categories appear and after much comparison and contrasting the final product appears.

The final step in the process is making connections between categories. The aim is to “discover regularities, variations and singularities in the data and thus to begin to construct theories” (Blaikie, 2000). The connections between categories in this analysis are made for example when one participant says that a partner’s experience is necessary for success and this is corroborated by another participant from the same firm saying the new CEO brings a lot of experience from America, then one can conclude that experience is a necessary prerequisite for the success of the firm. This is further enhanced when there is corroboration among the different cases. Other examples will be provided in the data analysis section to follow. The final categories are then tabulated and presented for discussion.

Based on the above methodologies and procedures it is possible to systematically develop categories and concepts for this study. The actual development will be discussed shortly, but the next stage in the analysis is that of matching patterns in the categories that have been developed.

### **3.5 Data Matrices and Pattern Matching**

The next step in the case study methodology is to look for patterns from the data and using these patterns to show the results of the study and formulate theory. Eisenhardt (1991) explains that cases are a useful tool for analysis because they permit replication and extension among individual cases. This means that individual cases can be used for independent corroboration of specific propositions and thus avoid or eliminate chance associations. Thus when all respondents within each case indicate that experience is a necessary prerequisite for success, and this is repeated in the other five cases, there is obvious replication of data and this means that it is a relevant point and not just a chance association.

The second aspect is extension, which refers to the use of multiple cases to develop more elaborate theory. Different cases often emphasise complementary aspects of a phenomenon and by piecing together the individual patterns, the researcher can draw a more complete theoretical picture. Thus patterns that appear from the use of several cases enhance the development of theory. For example, if among the 6 cases most or all of these cases indicate that say, a viable "exit" is a prerequisite for investment, then one can safely presume that an institutional theory angle can be used to explain this common pattern in VC investment strategy. The more common the pattern then the less one can say that it is a chance association. The more common the pattern the greater is the confidence that it is relevant to the theoretical proposition.

In using a pattern matching methodology it is also important to follow the recommendations of Frechtling & Sharp (1997). Firstly it is necessary to determine the patterns and common themes that emerge in responses dealing with specific items and explore how these patterns (or lack thereof) help to illuminate the broader study questions. Secondly we need to look for any deviations from these patterns and look for factors that might explain these atypical responses.

We then look for interesting stories that emerge from the responses and explain how these stories help to illuminate the Research Question. We must also establish whether these patterns or findings suggest that additional data need to be collected. Finally, we need to determine if the patterns that emerge corroborate the findings of any

corresponding analyses that have been conducted, in this case the triangulation aspect of the data and then explain any discrepancies that may appear.

These recommendations will assist in the development of the analysis and in formulating theory based on this methodology. The use of a pattern matching analysis can thus produce a robust analysis and by comparing it with other corroborating support including prior research by other authors it enhances the findings and assists in the development of rigorous theoretical analysis.

### **3.5.1 Matrix-Analysis for Pattern Matching**

While the pattern matching methodology is used in determining the findings of case study research, no preferred technique is recommended by any of the lead authors of the methodology. However, one technique that has been used by several researchers (Lillis, 1999, Averill, 2002, Palmquist, 1997) who have adopted pattern matching is the matrix analysis technique. This is also the technique proposed by Miles & Huberman (1994) for analysing qualitative data.

A matrix is “a set of numbers or terms arranged in rows and columns; that within which, or within and from which, something originates, takes form, or develops” (Agnes, 2000: 887). Miles & Huberman (1994:239) described qualitative data analysis using matrices as the “crossing of two or more main dimensions ... to see how they interact”. Averill (2002) believes that matrices are invaluable in searching for relationships between and among categories of data or phenomena, in examining how categories relate to particular theoretical concepts and in looking for propositions that link categories of information. Thus the interaction of data can lead to patterns and the identification of common patterns lead to the development of theoretical propositions in qualitative research.

Averill (2002) also described how matrices are used in practice. Matrices allow the researcher to display categorised data in individual cells. The data in individual matrix cells is paraphrased, synthesised or quoted content from participant responses. Matrices also “... streamline the process of noting simultaneously and systematically, similarities, differences, and trends in responses across groups of informants (2002: 856).

Thus matrices assist in streamlining the data and presenting it in a way that enables the researcher to systematically note patterns across the data set. It also provides a visual impact and can draw the reader's attention to the overall trend or patterns that emerge from the analysis.

There are also several important characteristics of data displays (Lillis, 1999:89). Firstly the data displays use reduced data, i.e. the relevant data are condensed or re-written in a clearer format for analysis purposes and not necessarily verbatim from the transcripts. Hence each cell of the matrix consists of short blocks of text, quotations, phrases, etc. Precise records are also kept of the actual criteria or decision rules used to select the content of the cells whose parameters are determined by the nature of the research question (s). Finally these displays highlight patterns across cases and across the data sets. An example of a data matrix is provided in Table 3.2 below.

	Interviews	Management Team	Company Archives					
	Yong Thian Tze & Peter Chan	Experience, Domain Knowledge & Expertise	Portfolio of Investments	Investment IPOs & M&A	Investment Space	Network of Offices	Worked in Variety of Firms	Conclusion
(i) Intangible Resources		The 2 Partners have more than 45 years industry experience & 25 years collectively in VC fund mgt. Peter worked in VC funds in current domain, TS was Country Director of Singapore Telecoms & has Bachelors in Electrical & Electronics engineering	Multiple portfolio within focus industry in multiple countries	Group and firm have listed many investments in multiple countries.	Investment space is very focused and clearly stated	Senior Management in multiple offices with wide experience	Based on the experience of the team & whether they have wide working experience in VC funds or in industry	
a) Management Team Experience	Domain experience is relevant to success	Strong support, well experienced.	Strong support	Strong support	Strong support. Investment space fits team's experience	Strong support	Strong support	Strong support that experience is an important factor in success.
b) Expertise & Knowledge Base	Importance of team's expertise & knowledge base related to their industry focus emphasised.	Strong support. Wide expertise in focus industries & strong knowledge base in the team.	Strong support	Strong support	Strong support. Investment space fits team's expertise & knowledge base	Strong support	Strong support	Strong support that expertise & knowledge base fits investment portfolio & space & is hence an important factor in success.
c) Knowledge Sharing	Extensive knowledge sharing between partners - sharing ideas, thoughts & opinions on investments.	Moderate support. With management team spread around the region in 15 countries indicating propensity to cooperate.	N/A	N/A	N/A	With wide spread of offices propensity to cooperate is strong	N/A	Moderate support. Knowledge sharing is indicated in some areas.

Table 3.2: Extract of Meta Analysis – BCEA - Intangible Resources

### **3.5.2 Triangulation of qualitative and quantitative data using a Meta-Matrix analysis**

While a data matrix is used to search for patterns within similar types of data e.g. interview data in one case with interview data in other cases, triangulation of different data sets is slightly more complicated. As triangulation is a necessary part of this dissertation in adding extra understanding and robustness to the study, the use of the data has to be made meaningful especially in validating or confirming patterns that have been discovered in the data matrices.

For example, if a VC states that his firm invests only in markets that have a viable capital market especially for an IPO, one method of triangulating and verifying this claim is to look at the investments that the firm has made and determine whether the countries that they have invested in have viable capital markets. Hence if they have invested in Singapore, their claim is validated but if they invest in Vietnam or Myanmar then that claim is suspect or dubious, as these countries do not have viable capital markets, especially a stock exchange.

The different data sets for triangulation are also used in a form of data matrices called meta-matrix (Miles & Huberman, 1994, Wendler, 2001). These are similar to data matrices except that they contain both qualitative and quantitative data and in this dissertation will be used for within-case pattern matching purposes to validate the interview information provided by the participants. The triangulation of the findings using the meta-matrix approach allows "identification of surprising relationships that may otherwise have been problematic to identify from the data. The methodology may be useful when working with numerous sources of qualitative and quantitative data captured from a variety of sources..." (Wendler, 2001:525).

In this dissertation there are a variety of data sources that will be used to verify the primary VC interview data and this includes company archives, information from the firm's website, IPO documentation, interviews with investee firm CEOs and other sources of information. Thus meta-matrices will be used to triangulate and validate the primary interview data sets. This adds to the robustness of the study. An example of this analysis is given in Table 3.2 above.



The category being explored is Intangible Resources and the sub-categories are management team experience, expertise & knowledge base and knowledge sharing. To determine whether there is support of say, experience, we look for corroboration in the respondent's Biodata on the experience that he/she has had in the industry. If the respondent's firm invests in the media industry but the respondent has no experience in the industry or say has never worked or invested in the industry then we have to say that there is no corroboration between the firm's investments & the experience of its management and this means that we cannot confirm that the firm is successful based on its managers' experience. However, using the case of BCEA above, the firm invests in the media and telecommunications industry and both the partners do have such a background, then there is confirmation that experience is a valid indicator of success and the sub-category is validly corroborated.

The same is done for the other categories and sub-categories by using data obtained from different qualitative (interviews with investees) and quantitative (Biodata, investment focus, investments made, etc.) sources. This method of triangulation provides good corroborative support and adds to the robustness of the findings. Appendix C1 to C6 provides the complete list of sources of data that have been used for this analysis and the full analysis using Meta analysis.

### **3.6 The Audit Trail**

Another important issue in the use of qualitative data including in data matrices is that of ensuring trust in the methodology. Miles & Huberman (1994) recommend the use of an "audit trail" to track data from transcripts to the development of theoretical propositions.

Krathwohl (2004) explains the audit trail in data matrices as follows:

"Matrices ... provide an "audit trail" that others can follow to reconstruct how an analysis developed, to check how well coding terms are grounded in the data, and to determine the logical validity of conclusions... a clear audit trail helps critics to track the steps of qualitative method and is likely to provide for greater methodological rigor. Without in any way restricting the options available to the researcher, an audit trail allows others to check the reasoning and makes the process explicit"

The audit trail enables a reader to trace the entire process of the development of the theory and in this dissertation is illustrated as follows:

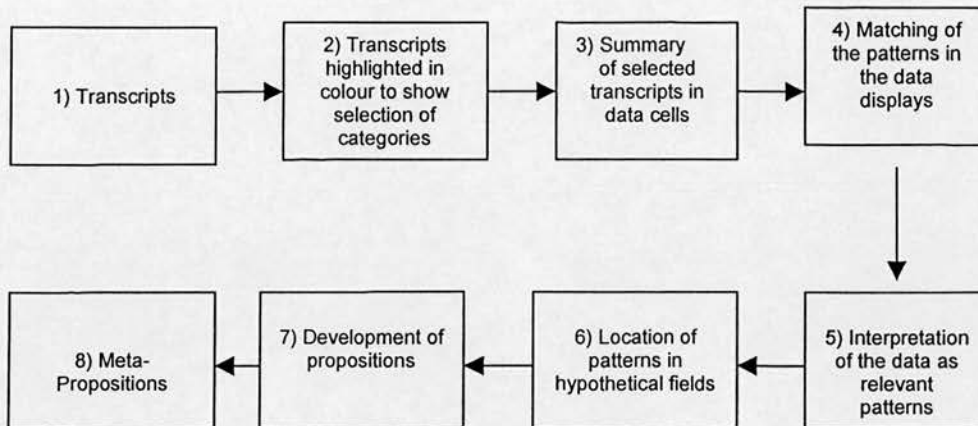


Figure 3.1 – Audit Trail

Thus a reader can follow the analytical process from the beginning to the end and at any time can check the validity or reliability of both the data and the process to the discovery of the theoretical propositions made in this dissertation.

### **3.7 Neither theory nor hypothesis to be used**

The basic premise of GT is to formulate concepts and then proceed with data collection but not use prior theory or hypothesis. Eisenhardt (1989) also advocates that theory not be used in this form of case study analysis when she says (1989:536): "... most importantly, theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test". While it is virtually impossible to start with this ideal of 'no theory under consideration' especially in an academic thesis, which ordinarily includes a literature and a theoretical review, it is necessary to stay as close as possible to this ideal and avoid preordained theoretical perspectives or propositions that may bias and limit the findings (Eisenhardt 1989).

Hence the literature review is used mainly as a "scoping" exercise to establish whether or not researchers have studied and provided answers to the Research Question. Once it has been established that this has not been done adequately then this study will proceed to seek answers to the question via the use of this research design. Whatever theoretical considerations were provided in the literature review will not be adopted and this research will continue on the assumption that no relevant theory exists especially to

answer the Research Question of this dissertation. Therefore, in principle it is possible to follow Eisenhardt (1989) and start the research on a “no theory under consideration” basis, and this is made simpler in this dissertation because there isn't an adequate answer to the Research Question.

GT as a methodology also does not advocate the use of prior theory or hypotheses as theory is generated from the data itself and via concepts and categories generated from the analysis of the data. Thus this dissertation and the research design adopts the premise that there is no known theory and no hypothesis to test. It must be admitted though that the lack of theoretical development in this field and the non-existence of specific studies on the success of GVC does make this a little easier.

### 3.8 Selecting cases

This next section relates to row ‘C’ of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
C	Select Cases - Specify population - Theoretical sampling - Choose extreme/polar cases	Sampling proceeds on theoretical grounds - Based on concepts, their properties, dimensions & variations	Unit of analysis – the firm Sampling based on theoretical sampling	-Population: Foreign VC firms in Malaysia & Singapore -Set Qualifying criteria for theoretical sampling of firms; -6 cases to be selected

All three authors Eisenhardt (1989), Glaser & Strauss (1967) and Yin (1994) advocate that case selection must be based on theoretical sampling. This is quite different from the statistical sampling used in most quantitative methods and some qualitative ones too. There are several stages to theoretical sampling starting with the specification of a population.

#### 3.8.1 Specify Population

While the statistical concept of a population and statistical sampling will not be used, Eisenhardt (1989) does recommend consideration of the concept of a population as this defines the set of entities from which the research sample will be drawn. This population identification also controls for extraneous variation and defines the limits for generalising the findings (1989: 537).

There are two issues to consider in the selection of the population to meet the conditions set by Eisenhardt (1989), firstly the country or countries in which the population is based, since this is about foreign venture capitalists investing in emerging markets, and secondly about the cases within this population.

The countries that have been selected for the research are Malaysia, Singapore and Thailand. They have been selected as the location of the population due to the following reasons:

- They are all emerging venture capital markets in South East Asia. Although Singapore is more advanced economically, venture capital investing is still in its infancy there as it is in Malaysia and Thailand.
- All have active Government interventions in venture capital & Entrepreneurship, although in Thailand it is not as extensive as the other two.
- Malaysia and Singapore have similar institutional structures, with legal systems based on English common law. Thailand also has a common law system and although it is slightly different from the English system there are no significant structural differences.
- The state of innovation in Singapore is slightly more advanced than both the others but Malaysia and Thailand are just as Entrepreneurial
- All foreign venture capitalists located in these three countries practise cross-border investments, if not within the country office, then at least via the group itself.
- Although Singapore does have a more open financial system, in venture capital there are few differences as Malaysia and Thailand are as liberal as Singapore in its regulations concerning venture capital investing
- The final reason for the selection is their close proximity to each other and the cost of performing the research in three neighbouring countries is more reasonable.

On the second requirement of cases within the population, to qualify as foreign venture capital firms the firms must possess some of the following characteristics to be labelled appropriate:

- They must be international i.e. their parent organisation, sources of funds or primary management office must be outside the three countries
- They must be investing in either one of the three countries in which they operate – Malaysia, Singapore or Thailand
- They must have a track record; hence new firms with no existing investments will be excluded
- The management team must either have investment experience outside their home countries (Malaysia, Singapore or Thailand) or be guided by their parent organisation's managers or policies

The final basis of the selection is the financial success of the firm. Hence where firms have been selected as successes, they demonstrate that they have been financially successful. Although it was not possible to obtain financial accounts of the firms, as they are not required to provide this to the public, the successful firms were deemed successful, based on available data from their websites and archives, because they have raised funds successfully; they have many exits globally and have been in existence for a long time, as longevity also demonstrates success (Bygrave & Timmons, 1992). The failed firms on the other hand have not managed to raise any funds recently; either have no exits or very few exits in the last 5 years and have either closed down all or many of their regional offices.

Foreign venture capital firms located in Malaysia, Singapore and Thailand are the population for this study. There are approximately 47 foreign venture capital firms operating and investing in Malaysia (8), Singapore (30) and Thailand (9). This number is based on the foreign firms that are members of the Malaysian, Singaporean or Thai Venture Capital Association (please see Appendix D). There is a difference in the numbers of firms according to the Associations' members list and the Asian Private Equity (2003) list, which lists all statistics of firms and funds in Asia. Asian Private Equity (2003) lists a total of 183 venture capital firms in Malaysia, Singapore and Thailand but the Associations only list 114, a difference of 69 firms or funds.

There could be several reasons for this difference. Firstly many firms may operate in these countries but are not necessarily members of the Associations and secondly Asian Private Equity (2003) lists both firms and funds. Some firms may list their funds

separately and thus Asian Private Equity may list them as separate entities (it lists them as Funds/Companies). Finally there may be differences due to attrition or additions to the numbers of venture capital firms and differences can also be attributed to the differences in dates when the statistics were obtained. The Asian Private Equity (2003) statistics are based on the first half of 2003 about 2 years earlier than the Association lists which were confirmed on 1<sup>st</sup> May 2005.

However this difference in the numbers of firms does not alter the validity of this research or the methodology because of the use of the theoretical sampling process according to GT. The firms selected for this study will be the firms listed in the Association lists, i.e. the most up to date list.

### **3.8.2 Theoretical Sampling**

The selection of the cases themselves will be based on theoretical sampling (Pandit, 1996) whose logic is to develop a theory about a substantial topic (Glaser & Strauss 1967), in this case a theory about what leads to successful GVC investing in emerging markets. Glaser & Strauss (1967:45) define theoretical sampling as:

“...the process of data collection for generating theory whereby the analyst jointly collects, codes and analyses his data and decides what data to collect next and where to find them in order to develop his theory as it emerges.”

Glaser & Strauss studied sociological phenomenon and in their early book did not provide clear guidelines on the actual sampling process that can be used in management studies. This was however provided by Locke (2001) who used GT in management research. According to Locke, the rationale for theoretical sampling in management research is:

“ ... to direct all data gathering efforts towards gathering information that will best support development of the theoretical framework. This means that researchers enter into data collection with the supposition that it will be an open ended and flexible process that will likely be modified over the course of the study as we compose, and work to clarify, develop and refine our conceptual categories and conceptual scheme” (2001:55).

Corbin & Strauss (1990:8) define theoretical sampling as follows.

“ Sampling in GT proceeds ... in terms of concepts, their properties, dimensions and variations. When a project begins, the researcher brings to it some idea of the phenomenon he or she wants to study. Based on this knowledge, groups of



individuals, an organisation or community representative of that phenomenon can be selected for study”.

Eisenhardt defines theoretical sampling as choosing cases for theoretical not statistical reasons (1989:537). Yin (1994) also advocates theoretical sampling, in his case using the basis of replication not sampling logic. Hence, when selecting cases the appropriate research design is one in which the same results are predicted for each case, thereby producing evidence that the different cases did involve the same syndrome (or phenomenon, using Corbin & Strauss (1990) phraseology). If the results were different, then they must be different for predictable reasons.

Furthermore, it is also important to select cases that are deviant, extreme or polar types (Eisenhardt, 1989, Mitchell, 1983) as this will provide many contrasts that lead to better grounding of the research. Pettigrew (1988) for example, chose clearly successful cases and failed cases to build theories of success and failure. In this research, failed cases may be firms who have invested (or attempted to invest) before but no longer do because they have failed or closed down their operations in the said markets. In this study cases selected included 3 successful firms, 2 firms that failed (the deviant cases) and 1 domestic firm to again provide a contrast with foreign firms.

However, finding deviant cases was a difficult process as there is in fact little public information available on venture capital firms and this makes selection difficult. Furthermore defining “deviant” cases among venture capital firms is more difficult than “typical” firms except in cases of venture capital firms that have set up and then closed down due to unsuccessful investing. Also not many managers of firms that fail will want to speak about their failure, as was the case with Stanley Cheong of Transpac Capital Singapore who refused a request to discuss the failure of the Transpac Group. Despite that two cases of deviant firms were found, Softbank Emerging Markets and Transpac Capital both based in Malaysia.

### **3.8.3 Case selection in this study**

By selecting cases based on the qualifying criteria stated above, it is possible to meet the stringent requirements of all these authors in terms of theoretical sampling. Cases were thus selected based on the population criteria explained above in addition to the following:

- In performing the research it will be an open ended and flexible process that will likely be modified over the course of the study, hence the individual managers must be willing to discuss this more than once if necessary and it must also be possible to speak to more than one manager at each firm
- The firms must be “representative of that phenomenon” being studied, i.e. they must be foreign firms investing in an emerging Asian VC market
- Cases must lead to similar results. By selecting successful foreign firms and studying their reasons for success we should be able to find similar results for their success
- In selecting deviant cases, their results must show the opposite of the reasons for success above, which therefore led to their failure and confirms the reasons for success of the successful firms
- To add a balance to these foreign firms one local Malaysian firm was selected with the aim of discovering if there are any differences, which can affect this study.

Based on these issues the six firms selected were as follows:

i) Three successful firms:

- BI Walden, the Malaysian office of Walden International, an American firm
- Barings Communications Equity Asia, a Dutch/British firm located in Singapore
- H&Q Thailand, the Thai office of H&Q Asia Pacific, an American firm

ii) Two failed firms:

- Softbank Emerging Markets Asia Malaysia (SBEM), a joint venture between Softbank Corp of USA and International Finance Corporation of the World Bank based in Malaysia
- Transpac Capital Malaysia, the Malaysian office of Transpac an American-Hong Kong firm

iii) One local firm:

- MSC Venture Capital Bhd, a local Malaysian firm

#### **3.8.4) Case Outlines**

This section provides outlines of all the cases in the study. A one-page outline of all the key characteristics of the cases is provided in Appendix E.

##### **A) Barings Communications Equity Asia (BCEA)**

The firm was started in 1996 by the British based Barings Banking Group to invest in Asian Media and Telecommunications companies. However after the collapse of Barings Bank during the Asian Crisis and the subsequent takeover of the group by the Dutch group ING, it's ownership became Dutch/British. The new Dutch owners however decided that it would operate better as an independent venture capital fund and post ING, BCEA has operated as an independent firm. ING-Barings are now only investors in the fund.

Peter Chan and Yong Thian Sze started the US\$ 100 million fund as the Managing and Investment Partners respectively. Their base of operations is in Singapore and there are 4 regional offices – Taiwan, Korea, China and India. Initially Singapore was also a regional office as their head office was originally in London, but after devolution by ING, the operations are headquartered in Singapore. The firm invests throughout Asia, especially South East Asia and North Asia.

The firm has a clear focus in the Media and Telecommunications industries especially in broadcasting, Internet, wireless, broadband and content. It has several investments throughout North Asia and Singapore in these industries for e.g. China Television Company, TV station (Taiwan); CVD Entertainment Public Co Ltd, video publisher and distributor (Thailand); Popular Holdings Ltd, a books publisher and retailer (Singapore); Pacific Broadband Co Ltd (Taiwan); Weaver Group, financial software (Hong Kong); and Youngjin, IT educational content (Korea).

BCEA is considered a successful firm as several of its investments have been listed including China TV Company (Taiwan listed with a market capitalisation of US\$ 575 million as at 6<sup>th</sup> May 2005), CVD Entertainment (Stock Exchange of Thailand) and Popular Holdings (Singapore Exchange). The partners have also just started a new fund called Crest Capital Partners Ltd to continue investing in this space.

As the most senior managers of the firm, both the Founder Partners were interviewed for the dissertation.

#### B) BI Walden (Walden)

Walden International was founded in 1987 in the USA by Lip-Bu Tan a Malaysian living in the US. The firm's headquarters is in San Francisco and it has several regional offices in Asia – China, Hong Kong, Japan, Malaysia, Philippines, Singapore and Taiwan. The size of the global fund is US\$ 1.5 billion. In Malaysia it has three funds jointly funded with Bank Industri & Teknologi Malaysia Berhad, a large state owned bank. Hence the Malaysian operation is known as BI Walden, but Bank Industri is only an investor in the fund, the fund itself is fully managed by Walden International.

Walden investments are focused on four industry sectors: communications, electronics/digital consumer, software and IT services and semiconductors. It has had many investments in these sectors, for e.g. Semiconductor Manufacturing International Corporation (Chinese firm, listed in New York and Hong Kong); Creative Technologies Ltd (Singaporean firm listed on NASDAQ); Jobstreet Berhad and The Media Shoppe (Malaysian firms both listed on MESDAQ) and SINA Corporation (Chinese firm listed on NASDAQ). Walden has successfully exited almost 50 investments globally. Walden International is considered successful due to its large number of successful exits and a portfolio of more than 100 investments. It was also voted "2005 Venture Capital Firm of the Year" for Asia by Private Equity International.

The three senior managers at the Malaysia office, Country Manager Kwee-Bee Chok and the two Investment Managers Cindy Tee and Chee-Khen Chong were interviewed. Cindy Tee is no longer with the firm and is currently an independent consultant. When she was interviewed she had just left the firm.

#### C) H&Q Thailand (H&Q)

Dr. Ta-Lin Hsu founded H&Q Asia Pacific in 1987 when he was a General Partner at Hambrecht & Quist Group. In 1990 it was incorporated independently and separated from the Hambrecht & Quist Group. It is now run as an independent firm under the Chairmanship of Dr. Hsu. The headquarters of the group is in Palo Alto in Silicon Valley, USA.

The group manages US\$ 1.8 billion through 17 funds and has regional offices in Japan, Korea, Philippines, Thailand, Singapore and Taiwan. It invests as both a venture capital and private equity fund in early stage as well as late stage deals. Its investment focus is in technology, technology manufacturing, consumer brands and financial services. Some of its successful investments include Transmedia Communications (USA, acquired by Cisco Systems); Worldwide Semiconductor Manufacturing (Taiwanese firm now acquired by Taiwan Semiconductor Manufacturing Corporation); Fabrinet Company Ltd, Thailand (listed in Thailand); Advanced Systems Automation Ltd (listed on SESDAQ, Singapore); GDH, an animation and media firm (listed in Japan) and also owns the Starbucks franchisee company in Beijing and Tianjin (China).

H&Q is considered a successful firm as it has had many successful exits in Thailand and also globally and has a large portfolio of investments. The two senior managers of its Thailand office, Managing Director Mr. Virapan Pulges and Investment Manager Mr. Patan Somburanasin were interviewed for this dissertation.<sup>7</sup>

#### D) MSC Venture Corporation

The firm was founded in 1999 as a Malaysian government funded venture capital firm to promote investments in the Multimedia Super Corridor (MSC), a technology and strategic initiative of the Malaysian government to foster a move from the industrial to the knowledge economy. The Malaysian government provided the entire capital of US\$ 31.6 million for the fund and is still its sole investor. There have been no further investments in the fund.

The firm has only one main office in Cyberjaya located 50 km from the capital Kuala Lumpur. Cyberjaya is a Greenfield site developed to promote the MSC as a hub for

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<sup>7</sup> The Thailand office was recently closed, in June 2005. The original funds were fully invested and H&Q decided not to raise a new fund for Thailand because of a lack of dealflow in Thailand. The decision not to raise a new fund was based primarily on opportunities, as China presented greater opportunities than Thailand. Although the Thai office is closed for new investments, H&Q Thailand is still deemed a successful firm as its original fund was fully invested and it had successful exits. H&Q Asia Pacific continues to invest successfully. Virapan still works for H&Q in managing their existing portfolio of companies while Patan now works for one of their portfolio companies, Ticon.



technology research and development and technology based companies. However the firm does invest outside Malaysia as well<sup>8</sup>.

Its investment focus is in telecommunications, e-commerce, medical systems and devices, security enterprise software, multimedia content and services. It is a successful firm with several successful IPOs all on MESDAQ market e.g. RedTone International in telecommunications and Internet telephony; Karensoft in enterprise resource management (ERM) solutions; Iris Corporation Berhad, in security devices and Palette Multimedia in hardware and services. MSC Venture Corporation is a successful firm because it has successfully exited several investments and has invested in several other portfolio companies. The three senior managers of the firm were interviewed: Esmond Goei, the CEO; Husni Salleh, the Chief Financial and Administrative Officer (formerly the Chief Operating Officer) and Alan Tan, the Head Corporate Counsel.

#### E) Softbank Emerging Markets (SBEM)

SBEM was originally founded in 2000 as a joint venture between Softbank Corp of the USA and the International Finance Corporation (IFC) of the World Bank. It was set up to incubate Internet related investments in developing countries. The original plan was to have five regional offices in the world, in South East Asia, Africa, Central Europe, Latin America and the Middle East. The Malaysian office was the first to start operations in March 2001 and the second office was set up in Poland later in 2001. However, both offices were shut down in late 2001<sup>9</sup>.

The fund size was US\$ 200 million set up as a 50:50 joint venture between Softbank Corp and IFC. The management was led by Softbank Corp from the US office in Silicon Valley. Their investment focus was in Internet infrastructure, enabling technologies and wireless communications. At time of closure the firm had no investments. The firm was deemed a failure because although it was set up as a US\$ 200 million fund, it made no investments and was closed by the head office in the USA.

There were four known managers linked to SBEM. The CEO was Mr. Matt Rothman, he was located in the US and the Regional Associate, Mr. Yoke-Kee Ang was at the

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<sup>8</sup> It has invested in a United States company, Farallon Medical Inc.

<sup>9</sup> Unlike H&Q Thailand, the SBEM group completely closed its offices and no longer operates any venture capital firm and does not have any investment funds. It had no investments or exits.



Malaysian office. The Managing Director Mr. David Low, together with Mr. Karan Ponnudurai as Investment Manager, led the Malaysian office. Two managers were interviewed, Ang and Ponnudurai, while it was not possible to locate either Rothman or Low.

#### F) Transpac Capital

The firm was founded in 1989 as a merger of two existing venture capital firms, Transtech Venture Management Pte Ltd of Singapore and Techno-Ventures Hong Kong Limited from Hong Kong. Transtech was established in 1986 by the Development Bank of Singapore and Natsteel Group, the national steel company of Singapore, both government linked companies. Techno-Ventures was started by Dr. Christopher Leong and Dr. Victor Fung. The head office was in Hong Kong. Subsequent to the merger Dr. Christopher Leong was made the President and CEO of the firm.

As at 2000 the firm was said to manage US\$ 820 million in funds, but its current fund size is unknown. The firm had several regional offices besides Hong Kong. They were in Singapore, China, Taiwan, USA, Malaysia, Thailand, Indonesia and Philippines. However in 2001 the group closed most of its South East Asian offices in Malaysia, Indonesia, Thailand and Philippines. It maintains the Singapore office to manage its existing portfolio of companies. There is no information on the activities or position of its other regional offices.

The firm invests in manufacturing companies and in industry and consumer related service companies, including Information & Communications Technology, electronics, industrial products, consumer products, health care, chemicals, food and the environment. It was initially a successful firm with many successful exits including Acer computers (Taiwan listed); Datacraft Asia, a distributor and integrator of data communication equipment (listed in Singapore); Medical Imaging Australasia, a medical diagnostic group (listed in Australia) and Systex, a financial systems software and service provider (listed in Taiwan). Many of these investments were pre-2000. No information on current investments or exits is available.

The firm is deemed a failed firm because it closed many of its South East Asian offices and even its Singapore office is dormant. There is no current information available on

the firm and no information on the activities of its other regional offices. Even Google searches show no evidence. There were a few managers associated to the group. The first is the President Dr. Christopher Leong. It was not possible to contact him, as no information was available. The Singapore manager Mr. Stanley Cheong declined to participate. The two former managers of the Malaysian office, Country Manager Mr. Jason Ng and Mr. Tien-Kiong Yeo were interviewed.

### 3.9     Crafting Instruments and Protocols

Once the cases were selected based on theoretical sampling several other issues need to be considered including crafting instruments and protocols, from the use of multiple data collection methods and data sources to ensuring the quality of the research design.

This is shown by row 'D' in Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
D	Crafting Instruments and Protocols - Multiple data collection methods	Multiple sources of data (Glaser & Strauss, 1967)	Case study protocol - Multiple data collection methods - Create a database - Maintain a chain of evidence	-Multiple data collection methods – interviews, documents (annual reports, IPO docs), archives, interview with investee firms. -Multiple interviews with multiple managers of each firm. -Construct validity, External validity & Reliability considered

We shall consider these aspects in the following section.

#### 3.9.1   Multiple Data Collection Methods - Triangulation

In crafting instruments and protocols for the research, Eisenhardt (1989) and Yin (1994) recommend combining multiple data collection methods, commonly known as triangulation. Glaser & Strauss (1967:163) also specifically recommend using multiple data sources to generate theory, when they say:

“... we shall detail some procedures for using various qualitative sources, alone and in combination, to generate theory effectively through comparative analysis”.

The sources they mention include documentary sources besides interviews. Multiple data collection methods provide stronger substantiation of constructs and hypotheses (Eisenhardt, 1989: 538). Yin (1994: 45) also advocates using multiple case studies because:

“...the evidence from multiple cases is often considered more compelling and the overall study is therefore regarded as being more robust (quoting Herriott & Firestone, 1983).

The use of quantitative data (as part of triangulation) according to Eisenhardt (1989:538) can also keep researchers from:

“ being carried away by vivid, but false, impressions in qualitative data and it can bolster findings when it corroborates those findings from qualitative evidence”.

Accordingly, this research used multiple data sources including but not limited to interviews with the venture capitalists, documents including media reports and articles, financial records, IPO documents (especially where the firm has listed investments, e.g. Walden has investments in Jobstreet), archives and also interviews with investee firms. The data from all these sources will be used to validate and verify the statements made by venture capitalists in interviews. However, obtaining the VC firms' financial records was not possible as such records were not in the public domain and were extremely confidential.

### **3.9.2 Data collection procedures, timing and protocols**

The next step in the Framework is as shown by row 'E' of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
E	Entering the field - Overlap data collection & analysis - Flexible & opportunistic data collection methods	Data collection & analysis are interrelated processes - Analysis begins with first data collected - Write theoretical memos	Case study protocol determines the procedures and methods	-Analysis begins with first data collected -Overlap of data collection & analysis -Field Notes/ Theoretical Memos to be kept

As the strategy being used is an inductive research strategy, the primary method being used is qualitative and the main data collection method is via in-depth semi-structured interviews. The use of semi-structured interviews instead of open interviews has been selected because of the time constraints of venture capital firm managers. An open

interview may be ideal for cases where respondents do not have time constraints but where only an hour or so of the respondent's time may be available each time; a semi-structured interview provides a better structure and enables the respondent to be more focused in replying to questions. This also allows for better time management.

The interviews were conducted with senior managers and partners of the firms and each interview lasted between 60 to 120 minutes despite the busy schedules of the managers of venture capital firms. Interviews were conducted with several managers in each firm and for each manager more than one interview was conducted in a few cases.

A total of 14 managers were interviewed from the 6 cases, with two of them interviewed more than once. The interview chart including the respondents' names and designations is provided in Table 3.3 below.

Table 3.3: Case Studies & Management Teams - Fieldwork Details				
Ref No.	Firm Name	Designation	Interview Date (s)	No. of Interviews
<b>A</b>	<b>BCEA Management</b>			
1	Yong Thian Sze	Investment Partner	20-Oct-04	1
2	Peter Chan	Managing Partner	10-Jan-05	1
<b>B</b>	<b>BI Walden</b>			
1	Chok Kwee Bee	VP & Country Manager	21-Oct & 22-Nov 2004 & 6-Jan 2005	3
2	Cindy Tee	Investment Analyst	29-Oct-04	1
3	Chong Chee Khen	Investment Analyst	18-Nov-04	1
<b>C</b>	<b>H&amp;Q (Thailand) Ltd</b>			
1	Virapan Pulges	Managing Director	04-Dec-04	1
2	Patan Somburanasin	Investment Manager	03-Dec-04	1
<b>D</b>	<b>MSC Venture Corporation</b>			
1	Esmond Goei	CEO	04-Nov-04	1
2	Husni Salleh	Chief Finance & Admin Officer	22-Oct-04	1
3	Alan Tan	Investment/Legal Analyst	13-Oct & 17-Oct 04	2
<b>E</b>	<b>Softbank Emerging Markets</b>			
1	Ang Yoke Kee	Regional Associate	29-Sep-04	1
2	Karan Henrik Ponnudurai	Investment Manager	19-Nov-04	1
<b>F</b>	<b>Transpac Capital</b>			
1	Jason Ng	VP & Country Manager	17-Nov-04	1
2	Yeo Tien Kiong	Investment Analyst	15-Nov-04	1

Table 3.3: Case Studies & Management Teams - Fieldwork Details

The other problem of an open interview even one that is semi-structured is the issue of researcher bias as this research is performed via personal face-to-face interviews. It may lead to issues of leading questions, prompting or probing but as this is an exploratory process, some probing or prompting was necessary. It was however minimised by my awareness of possible bias and by continual analysis and re-interviews. By using the spiral analysis technique and re-interview process, cases of interviewer bias was limited and omitted in subsequent interviews of new cases or managers. Bias is also limited as all information, notes and transcripts are available for third party verification by the PhD Supervisor or others.

Finally, because multiple interviews can lead to a potentially voluminous amount of information this was minimised with the use of semi-structured interviews and spiral analysis on a continuous basis. The interview period for the case studies was approximately 5 months and the interviews were conducted between September 2004 and January 2005.

A PC based external hard-disk MP3 recorder was used to record the interviews. This made transfer to a PC and saving the interviews easier than using traditional cassette recorders. However many of the managers did not want to be recorded as the interviews were given on a confidential basis and they did not want it on the record. Due to this, all interviews were prepared as ongoing memos in writing and were later transcribed. All memos, transcripts and recordings are available for review.

The timing method is cross-sectional, confined to the present time in terms of the managers' success analysis, investment strategies and attitudes. Although success is also determined by past investments, the basis of the investments and strategies used will be in terms of the "present time" analysis. Each respondent was asked to either provide a Bio data or complete a bio-data sheet while the corporate information of the firm was completed using information provided online at their websites supplemented by data provided by the managers. It was not possible to include financial and investment data which were confidential and not in the public domain, except for information on the type of investments made which were public information. Such data are included in the case study analysis.



### **3.9.3 Actual procedures**

Following the first set of interviews with the first case study, the transcripts were analysed and any changes made to the interview themes or questions. These were then utilised for subsequent interviews with the other cases and also for additional interviews with the first firm itself. Analysis was conducted on a continual basis and changes and additions made to the interviews for every subsequent interview in accordance with the GT methodology.

This spiral learning process is suitable for the GT and the inductive strategy as it enables the interviewer to build on the understanding obtained at different points of the process. Overall there were six (6) sets of questionnaires, which incorporated changes along the way. This process is discussed in greater detail later in section 5.4.6, "Entering the field".

### **3.9.4 Criteria for judging the quality of research designs**

Yin (1994) has also set certain criteria for judging the quality of research designs and it is appropriate to consider them here. He proposes four logical tests, only three of which are applicable to exploratory studies such as this (Yin 1994:33). The three logical tests are set out in Table 3.4.

Tests	Case study tactic	Phase of research in which tactic occurs
Construct Validity	- Use multiple sources of evidence	Data collection
	- Establish chain of evidence	Data collection
	- Have key informants review draft case study report	Composition
External Validity	- Use replication logic in multiple-case studies	Research design
Reliability	- Use case study protocol	Data collection
	- Develop case study database	Data collection

**Table 3.4 – Case Study Tactics for Three Design Tests For Construct Validity**

The use of multiple sources of evidence has been covered above, but the two other tactics that are applicable to case studies will now be considered. The first is the need to establish a chain of evidence. The principle here is to allow an external observer to follow the derivation of any evidence from the initial research questions to the ultimate case study conclusions (Yin 1994:98). This should also enable this external observer to

trace the steps in either direction, including backwards from the conclusions to the sources of the evidence.

The recommended procedure is fourfold. Firstly, to provide adequate citation in the report itself for the observer to trace the sources of the evidence, especially back to the case study database (which will be discussed shortly). Secondly, the database should reveal the evidence and sources including the circumstances under which the evidence was collected, the time, date and place of the interview. Thirdly, these circumstances must be consistent with the case study protocol to show that the data collection followed the content of the case study protocol and the initial research questions. Finally, there must be a link between the content of the protocol and the research question.

Thus the "chain of evidence" must show the link and cross-reference between the research question, the case study protocol, the procedures that have been followed and the resulting evidence. This dissertation will build in a chain of evidence as advised by Yin and will ensure that the links and cross-references are clear and adequate to meet the requirements of a robust research design. This will be seen in the sections on analysis of the study.

The second tactic is to have key informants review the draft case study report. There are two main objectives to this tactic:

- to obtain useful comments from the informants
- as a way of corroborating the essential facts and evidence presented in the case report

Informants may disagree with the conclusions and interpretations of the researcher but they must not disagree with the actual facts of the case. Any disagreements with the facts of the case must be settled via a search for further evidence. However any additional comments and new evidence may still be used in the report or used as new evidence for further analysis prior to completion. This dissertation accordingly adopted this procedure and obtained feedback from all the key informants except for one. All the informants vetted and approved the facts and conclusions as presented. One informant, Yeo of Transpac, did not respond despite several attempts to contact him. This could be

because he had moved on from his previous employment and tracing was difficult due to the distance from Edinburgh and Kuala Lumpur. Hence the response rate was 93%.

### External Validity

The second recommendation is to use replication logic in multiple case designs to show that a study's findings are generalisable beyond the immediate case study (Yin 1994:35). This will be covered in a separate section below under 'shaping hypothesis', but suffice to say that this is part of the research design.

### Reliability

The objective of reliability here is that if another researcher were to conduct the same case study all over again (with the *same* cases), then she should arrive at the same findings and conclusions as this dissertation. This can be done if there are well-documented procedures for the researcher to follow and this can be achieved by having a detailed case study protocol and a case study database.

The case study database is a way of organising and documenting the data collected for the case studies. It includes two separate collections; the data or evidentiary base and the report of the investigator, in this case the thesis (Yin 1994:94). The case study database should be formal and presentable and include all the evidence that has been collected including case study notes, case study documents, tabular materials and narratives.

The case study database includes notes of interviews, observations and document analysis and may be in any form handwritten, typed, audiotapes (or MP3 in this case) or in disks or CDs. They must however be stored in a form that is retrievable by future researchers. The only essential characteristics of the notes are that they are organised, categorised, complete and available for future access (Yin 1994:96). They also include tables, documents and answers to questions (narratives), which in this case will be MP3 format recordings that are transcribed and filed. This dissertation takes these issues into consideration and has both a well-structured case study protocol and also a complete case study database.

### **3.9.5 Data Reduction**

The interviews are transcribed and formatted in "Windows Word" format while the data matrices were reduced using "Windows Excel" format. Comparing and contrasting data was easier in the data matrix format using "Excel".

### **3.9.6 Entering the field**

In entering the field, Locke (2001) recommends the overlap of data collection and analysis as contrasted with the normal method of collecting all the data first and then analysing it after data collection ends. This method of overlapping data collection and analysis is in effect the basic methodology of GT, which Glaser & Strauss (1967: 102) call the constant comparative method. In this method while the data is being collected it is also being constantly analysed. This method leads to the generation of concepts, categories, properties and hypotheses about general problems or the general issues being researched. The method will be discussed further in the next section on analysing data. Corbin & Strauss (1990) also require that analysis begin with the first data collected.

The procedural aspect of entering the field is to consider what needs to be done in terms of data collection and analysis while one is in the field and what needs to be done to accomplish this overlap. One method to achieve this overlap is to keep field notes, a commentary about what is happening in the research involving both observation and analysis, preferably separate from each other. Eisenhardt (1989:539) notes two key aspects of field notes as important:

- (i) The researcher should write down whatever impressions occur, to react rather than to sift out what may seem important.
- (ii) The second key is to push thinking in these notes by asking questions such as "What am I learning?" and "How does this case differ from the last".

Thus field notes are personal records not only of the cases, interviews or other data but also notes on the observations, ideas, thoughts, hunches and anecdotes that come to mind while conducting the research. This form of notes can lead to the formation of initial categories, hypothesis or theories and also enable the researcher to seek additional information or data as necessary. This method was used to make field notes as interviews progress and during the interviews itself. This further assists in improving the

constructs and categories of the study and also allows for further comparisons and changes for future interviews.

Another key feature of this methodology is the freedom to make changes, adjustments and additions during the data collection process. It can include the addition of cases, adjustments to data collection instruments such as changing or adding questions or other changes that the researcher deems necessary to create better findings. This is the creative process of GT and case studies. As Eisenhardt (1989: 539) says, "these adjustments allow the researcher to probe emergent themes or to take advantage of special opportunities which may be present in a given situation".

Thus in the early stages of the study and following from the literature review the initial questions were open ended but somewhat related to questions on the environmental or institutional aspects of VC investing as this is what earlier researchers deemed important for successful GVC investing. However as the interviews progressed it was clear that the venture capitalists themselves did not consider environmental or institutional factors as important as their own experience and competencies. Thus subsequent interviews were adjusted to take advantage of this emergent theme of the GVC firm success leading the research away from an environmental impact on success towards a strategic view of success.

Corbin & Strauss (1990) also call advocate something similar, which they call 'theoretical memos'. These are not simply about ideas but involve the formulation and revision of theory during the research process. These memos are written from the beginning of the research till the end and the process of sorting and resorting during the writing process provides a firm base for reporting on the research and its implications (Corbin & Strauss 1990).

This study does in fact incorporate these field notes and theoretical memos and follows the procedures and recommendations of these authors including writing down impressions, thoughts, observations and hypothesis as well as using them in the sorting-resorting process when writing the findings and conclusions. It is also noted that this is a creative process where changes and adjustments are allowed which led to the formulation of six sets of questionnaires as the interviews progressed.



### 3.9.7 Analysing data

The next step is to analyse the data as shown by row 'F' of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
F	Analysing Data - Within case analysis - Cross case pattern search	1) Analysis makes use of constant comparison 2) Patterns & variations must be accounted for 3) Process must be built into theory	1) The logic linking data to the proposition -Pattern matching. 2) Criteria for interpreting the findings - Contrasting patterns lead to contrasting propositions - Look for alternative (rival) findings & propositions - Analyse all major rival interpretations	1) Within Case analysis - Build familiarity of each case - Pattern recognition & matching 2) Cross-case pattern matching 3) Look for contrasting patterns & rival propositions 4) Match patterns across data  Identify Factors or Reasons

It is apt to begin by recognising that this is one of the most difficult aspects of the methodology.

“Analysing data is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process” (Eisenhardt, 1989: 539).

However there are several methods that have been proposed to make analysing more structured and clearer. These can be separated into two aspects, within case analysis and cross-case pattern searching.

#### Within Case Analysis

The reason for separating analysis into these two aspects is to deal firstly with the voluminous data that often accompanies qualitative data especially with interviews. Pettigrew (1988) (quoted in Eisenhardt, 1989) called this “death by asphyxiation”. However, within case analysis can assist with this deluge of data.

Within case analysis involves the detailed case study write ups for each case which may be purely descriptive initially but will then be used for the generation of insight and theory. The idea is to make the researcher intimately familiar with each case as a stand-alone entity and to allow the unique patterns of each case to emerge before they are



used for generalising across cases (Eisenhardt, 1989:540). By becoming familiar with each case the depth of knowledge of the case is increased and this allows the researcher to recognise patterns and concepts in each case which can then be used for cross case pattern matching.

GT requires that analysis and data collection must be a continuous comparative process and this form of within case analysis fulfils this requirement as the researcher normally only performs one case study at any one time even within a multiple-case study research design. Corbin & Strauss (1990) emphasise that patterns and variations must be accounted for and the within case analysis will account for these on a case-by-case basis. Yin (1994) also states the need for pattern matching which can be done even with only one case.

Hence the within case analysis is a good procedural method of looking for patterns in each individual case, identifying them, analysing their importance and using them firstly for forming concepts and categories within the individual case before moving to the next step of comparing these patterns, concepts and categories with those of other cases. This will be done in my analysis.

### Cross-case Pattern Search

The key to good cross-case comparison is counteracting the tendencies of researchers to reach premature or even false conclusions due to information processing biases like leaping to conclusions based on limited data, being overly influenced by vividness or elite respondents or inadvertently dropping disconfirming evidence (Eisenhardt, 1989).

Eisenhardt (1989) proposed several tactics for good cross-case comparison:

- Select categories or dimensions and then look for within-group similarities coupled with inter-group differences
- Select pairs of cases and then list the similarities and differences between each pair
- Divide the data by data source

These tactics will now be considered in detail. The first tactic is to select categories or dimensions and then look for within-group similarities coupled with inter-group

differences. These dimensions can be suggested by the research problem or existing literature or the researcher can simply choose dimensions. In this thesis one dimension could be the effect of regional political factors on venture capital firm success. The researcher could look for similarities of this dimension within group and differences inter-group. Of course it will also be dependent on the responses received from participants, if none of them think this is a factor in success, then other dimensions that are mentioned will be considered instead.

This is what in fact happened in the research. For example only two respondents thought that political factors played a big role in investment success or failure. Although the political factor was one aspect identified in the literature review, the fact that 12 other senior managers did not think it was a big factor meant that it was not a significant aspect of global venture capital investing success or failure. Hence it can be concluded that this is not as important for their success and instead the research can focus on what actually is important for success, leading to other emergent themes.

The second tactic is to select pairs of cases and then to list the similarities and differences between each pair. The objective of this tactic is to look for subtle similarities and differences between cases. Thus looking for differences between seemingly similar cases or looking for similarities between seemingly different cases can lead to more sophisticated understanding and also result in categories and concepts that were not anticipated by researchers. This also fits in with the proposal by Corbin & Strauss (1990) that data must be examined not just for regularity but also for an understanding of where that regularity is not apparent. We can then extend this to groups of three or four cases for comparison, which was done in this study.

The third tactic proposed by Eisenhardt is to divide the data by data source, for example comparing interviews with other interviews or annual reports with other annual reports. This tactic exploits the unique insights from different types of data collection. When a pattern from one data source (say interviews) is corroborated by support from another (say their actual investments) then the finding is stronger and better grounded (Eisenhardt, 1989, examples added). Conflicts of evidence can then be reconciled through deeper probing or it may expose a spurious or random pattern or biased thinking in the analysis.

In this study the interviews (one source of evidence) was compared with say their actual investments (as evidenced by data on their website or via IPO documents) to determine whether there was any conflict. Hence in the case of Barings, their focus as stated in the interviews was on media investments and this was correctly corroborated by data on their website. Eisenhardt's idea behind cross-case searching is to force the researcher to go beyond initial impressions of the data through the use of this structured and diverse lens.

Yin (1994:123) also states four principles for high quality analysis. Firstly the analysis must show that it relied on all the relevant evidence. The analytic strategy must be exhaustive, including the development of rival hypotheses, it must show how it sought as much evidence as was available and the interpretation should account for all these evidence and leave no loose ends. The use of triangulation and multiple data sources will go some way towards addressing the exhaustiveness of the evidence although using GT, this can only be fulfilled when there is theoretical saturation.

Secondly, the analysis should include all major rival interpretations i.e. alternative explanations for my findings are considered rival interpretations. The evidence must then be used to address this rival and the results and interpretations shown accordingly. If the evidence is insufficient then it must be restated as a loose end to be further investigated. Thus once categories and hypotheses (in our case propositions) have been discovered, they have to be compared to the literature for rival interpretations and these have to be addressed. Thirdly, the analysis should address the most significant aspect of the case study the largest issues not minor ones.

Fourthly, Yin recommends bringing the researcher's prior expert knowledge to the case study, whether the researcher has analysed such issues in the past or whether the researcher is aware of current thinking and debates on the case study topic. Here prior experience will certainly play a role but the researcher must guard against bias, forcing her personal opinions on the case study participants or even the influence of prior theory.

While analysis is not the easiest issue of the case study, these operational and guiding principles add structure to the analytical aspect and assisted in developing analyses that are valid and robust.

### 3.10 Shaping hypothesis

Once analysis has been done the next stage is to form propositions as shown by row 'G' of Table 3.1 as follows;

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
G	Shaping hypothesis - Sharpening of constructs via refining definition & building evidence to measure constructs in each case - Iterative tabulation of evidence for each construct - Replication logic across cases	1) Hypotheses about relationships among categories should be developed & verified during the research process - Revise & recheck relationship hypotheses - Constant revision - Search for negative & qualifying evidence  2) Broader structural conditions must be analysed	1) Replication logic for multiple case studies - Literal replication - Theoretical replication	Generating Propositions  1) Constant comparison bet data & constructs to converge on single well defined construct 2) Use of tables to summarise & tabulate evidence of constructs 3) Look for both literal replication & theoretical replication  Formulate Propositions

Shaping propositions in theory building research involves measuring constructs and verifying relationships (Eisenhardt, 1989). This is a judgemental process in theory building research because researchers cannot apply statistical tests. It is a highly iterative process where the emergent frame is compared with the evidence from each case in order to ensure that there is a fit between theory and data. This 'fit' is a necessary part of the GT methodology. Researchers must constantly compare theory and data, iterating toward a theory that closely fits the data (Eisenhardt, 1989).

According to Eisenhardt (1989) one step in shaping propositions is the sharpening of constructs and this is a two-part process involving (i) refining the definition of the construct and (ii) building evidence which measures the construct in each case. This involves the constant comparison between data and constructs so that the accumulating evidence from diverse sources converges on a single, well defined construct. The researcher attempts to establish construct validity using the multiple sources of evidence to define the construct and distinguish it from other constructs. Thus the construct definition and measurement emerges from the analysis process and is not specified a-

priori. Tables will be used to summarise and tabulate the evidence underlying the construct to ease clarity and enable proper comparison.

It is also necessary to verify that the emergent relationships between constructs fit with the evidence in each case. The verification process is to examine each hypothesis for each case and not for the aggregate of cases. The underlying logic is replication, treating each case as a separate experiment and the series of cases as a series of experiments to confirm or disconfirm a hypothesis (Yin, 1994). Thus if there are 3 cases and the same results are obtained in all the cases replication has taken place. If the cases are contradictory then the proposition must be revised and retested or dropped as not confirming a hypothesis.

In this dissertation this part of the analysis will be conducted on an on-going basis as multiple data (interview data triangulated with other quantitative and qualitative data) is constantly compared within each case and also among the different cases. The pattern matching process utilised in this dissertation as explained in Sections 4.3 (within case pattern matching) and 4.4 (cross-case pattern matching), mean that this constant iteration between the data and the cases fulfils the requirement for replication for each case and also across cases. This process of going back to the data and constant comparison approach is one of the strengths of Grounded Theory and makes this part of the framework easier to fulfil. Hence section 6.1 on Shaping Hypothesis, will be made easier through the use of the Grounded Theory approach. The next step in the process is on matching with the enfolding literature as follows.

### 3.11 Enfolding literature

After the shaping of propositions the next step is to consider enfolding literature as shown by row 'H' of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
H	Enfolding Literature - Compare with conflicting literature - Compare with similar literature	No comments on Enfolding Literature	Literature Comparison - Interpretation is enhanced by relating findings to existing literature - Compare with rival propositions in literature	Match Propositions to Literature - Compare emergent constructs with existing literature - Also look for comparison with literature in similar fields – globalisation of business, etc.



Eisenhardt (1989) believes that it is essential to compare emergent concepts, hypothesis or theory with the extant literature and to ask what is similar and what is different. Thus where extant literature corroborates the findings, it results in a theory with stronger internal validity, wider generalisability and a higher conceptual level. This is enhanced further where findings are similar in a very differing context. Hence if our findings are corroborated by similar theory in other GVC literature the theory is confirmed, and if additionally there is corroboration with literature on international business or strategic management then the validity of my theory is enhanced further.

However if the generated theory conflicts with the existing literature then confidence in the findings are reduced. However as Eisenhardt (1989) says:

“... conflicting literature represents an opportunity. The juxtaposition of conflicting results forces researchers into a more creative, frame breaking mode of thinking ... The result can be deeper insight into both the emergent theory *and* the conflicting literature as well as sharpening of the limits to generalisability of the focal research”.

Hence conflicting theory does have its benefits as well. This research does indeed show that there is something of a “conflict” between existing GVC literature and the factors that lead to success in GVC investing. This has however created an opportunity to advocate new propositions for successful GVC investing. The key discovery that has emerged is that while the supposed “conflict” with existing GVC literature exists there is instead great corroboration and support to be found in other literature especially in strategic management and international business literature. Thus the end result is that there is no real “conflict” with the GVC literature but a gap in the literature that is being filled by these findings.

Yin (1994:123) also adopts this aspect of comparing the theory with extant literature when, in his four principles for high quality analysis, he suggests including all major rival interpretations in the analysis stage. Further in composing the case study report he encourages “...the examination of the evidence from different perspectives (Yin, 1994:149). These perspectives are found in alternative cultural views, different theories or some similar contrasts. This is where the strength of the GT methodology lies and it is



shown in this dissertation. Propositions for successful GVC investing can be matched to different perspectives and theories in general management and international business literature and will be shown in Section 6.2.

### 3.12 Reaching closure

The next step is reaching closure as shown by row 'I' of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
I	Reaching Closure – Theoretical saturation (i.e. when marginal improvement is small)	No comments on Reaching Closure	Review of Draft Case Study Report by Participants & Informants	<ul style="list-style-type: none"> <li>- Look for theoretical saturation</li> <li>- Draft case for participant review</li> </ul>

According to Eisenhardt (1989:545), two issues are important in reaching closure: “when to stop adding cases and when to stop iterating between theory and data”. In the first, researchers should stop adding cases when theoretical saturation is reached, i.e. the point at which incremental learning is minimal (Martin & Turner, 1986) or when category development is minimal because there is no new data (Glaser & Strauss, 1967:61). Hence when we see similar instances over and over again we can be confident that theoretical saturation has been reached (Harris & Sutton, 1986). According to Glaser & Strauss (1967:62), “The criteria for determining saturation are a combination of the empirical limits of the data, the integration and density of the theory and the analysts theoretical sensitivity”.

During data collection further interviews lead to repetition of findings with no significant differences, which led to a conclusion that possible saturation has been reached and no further interviews were conducted. This was after 17 in-depth interviews with 14 senior managers in 6 VC firms. While this may not ordinarily be thought to be enough, almost all of them keep leading to the same conclusion; that successful GVC investing is dependent more on the Intangible Resources categories of the firms. Even the managers of the firms that failed believed this was important, thus saturation in this study was somewhat achieved. Eisenhardt (1989:545) also states that while there is no ideal number of cases, a number between 4 and 10 usually works well. Less than 4 cases may make generating propositions unconvincing while more than 10 may lead to voluminous data. This research has six (6) cases, thus fitting very comfortably within the 4-10 cases proposed by Eisenhardt.

The second closure issue is when to stop iterating between theory and data. While saturation is the key, i.e. when the incremental improvement to theory is minimal (Eisenhardt, 1989: 545) in a doctoral dissertation voluminous data, time limits and costs also play a part in reaching closure. In this study we stopped at 6 cases to ensure that it was possible to make it an in-depth study and also to complete within the set doctoral time frame. Fortunately, as the analysis will later show, there was a lot of consensus in the findings that approximates saturation as advocated by Eisenhardt (1989) and as mentioned above.

Yin (1994) proposes that before reaching a final conclusion or writing the report, a draft case study report is given to key informants for their review and comments. This will aid in improving the final report and adding comments or suggestions as well as clarifying errors or finer points made by respondents. As mentioned earlier they may disagree with the interpretations and conclusions but not with the actual facts of the case. If there are errors in the facts then this must be adequately addressed. As such feedback was obtained from key informants in this study.

### 3.13 Final product – Meta Propositions

The final product of this thesis is to produce a meta-proposition or propositions that provide an explanation for the Research Question. This is the final step in the Framework as shown by row 'J' of Table 3.1 as follows:

	Eisenhardt (1989)	Corbin & Strauss (1990)	Yin (1994)	Action Points for Thesis
J	Final product: - Concepts - Conceptual framework - Propositions - Mid-Range Theory	No comments on Final Product	Composing the Case Study Report: Illustrative structures for compositions - Linear analytic - Theory building	Final Product  Meta-proposition or propositions

While Eisenhardt (1989) and Yin (1994) do allow for the development of theory, it is submitted that for a PhD dissertation it is better to develop meta-propositions for two reasons. Firstly, it would be more reasonable to expect meta-propositions from a 3 year dissertation as the data that has been collected and analysed may not be as wide ranging as to enable the development of theory. Secondly, while Yin (1994) and Eisenhardt (1989) do state that theory development is possible, it is submitted that far

more time and a wider scope of research may be better for the development of robust theory that would stand the test of detailed analysis and further testing. Hence in this dissertation the final product will be meta-propositions with additional suggestions for future research.

These meta-propositions are developed by incorporating the propositions developed in the dissertation in section 6 with existing theory. Three existing management theories were applied to the propositions and used to explain the research question. The incorporation of the research propositions into these theories provides us with the contribution of this dissertation, the meta-propositions of the thesis. Section 7 provides complete details of the three meta-propositions.

### **3.14 Generalisation from case studies**

There are many thoughts on the use of case studies to generalise findings to the wider population. However, I will follow the arguments of Yin (1989) and Mitchell (1983) in generalising my findings. Basically Yin and Mitchell have argued that case studies can be used on the basis of a different kind of logic used to test a theory which Mitchell (1983) calls "logical inference" while Yin (1994) calls it "analytic generalisation or replication logic".

Mitchell (1983: 199-200) says, " logical inference is the process by which the analyst draws conclusions about the essential linkage between two or more characteristics in terms of some systematic explanatory schema – some set of theoretical propositions". He adds, " We infer that the features present in the case study will be related in a wider population not because the case is representative but because our analysis is unassailable" (Mitchell 1983: 200).

Yin (1989:38), asserts, "... the method of generalisation is 'analytic generalisation' in which a previously developed theory is used as a template with which to compare the empirical results of the case study. If two or more case studies are shown to support the same theory, replication may be claimed. Analytic generalisation can be used whether your case study involves one or several cases". The fact that 6 case studies are being used (following the recommendation of Eisenhardt, 1989), it provides an acceptable

method of comparison for generalisation especially as the majority of the cases support a theory and on that basis the generalisation of the findings.

### **3.15 Summary of Methodology and Research Design**

The use of GT in management research is still a new field of endeavour compared to other qualitative and quantitative methods. While it is not an easy method to use, it does allow for a more creative and explorative study and is being used here specifically because it is suited for this under researched field of GVC

This research design and methodology has also been selected based on the literature review and supported by leading researchers in this field such as Bruton et al (2002, 2003) and Wright (2002). As very little research has been done on the reasons for success in the globalisation of venture capital, it is desirable that much more be learnt through the use of an inductive research strategy adopting an explorative, grounded theory methodology. Also the nature of the "newness" of venture capital in Asia provides the opportunity of doing a more exploratory form of research.

In the next section we will consider the key aspects on how the methodology is applied.

## **4. Use Of Methodology In Analysis**

The objective of this section is to demonstrate how the Grounded Theory and case study methodology will be used in two important aspects: how categories were identified and developed and how the pattern matching was done for both the within case and cross-case aspects. As this dissertation developed a new framework for the Grounded Theory and case study methodology, it is necessary to demonstrate its use with examples from the research before proceeding to the actual analysis and results in section 5.

### **4.1 Reviewing the Framework of Grounded Theory and Case study Analysis**

The framework for our analysis is reproduced below in Figure 4.1 (next page). The focus in this section is on category development and pattern matching, as these are the two key requirements of this methodology before we can proceed to generating propositions. Only after categories have been discovered and finalised can the pattern matching begin, and only after identifying these two aspects can the actual results be analysed.

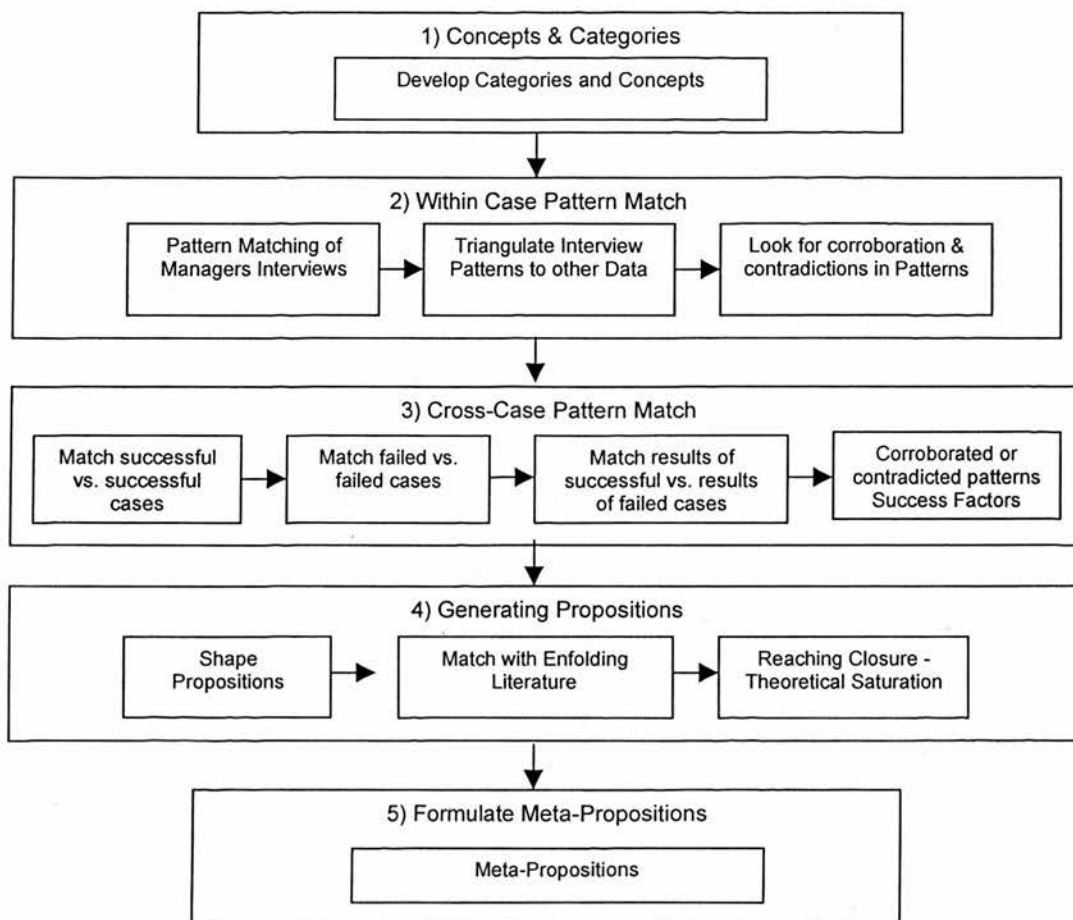


Figure 4.1: Grounded Theory with Case Study Analysis Framework



## 4.2 Concepts and Categories

The first part of this demonstration is to consider the Concepts and Categories aspect as shown in Figure 4.2 extracted from Figure 4.1 above.

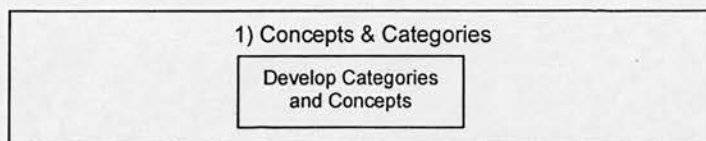


Figure 4.2: Concepts & Categories – Framework Extract

There are two aspects to explore here: developing concepts and then developing categories.

### 4.2.1 Developing Concepts

The primary concept is that of “successful global venture capital investing” by foreign VC firms in emerging markets in Asia with a focus on the 3 main markets in South East Asia – Malaysia, Singapore and Thailand. We have defined foreign VC firms earlier but we have not defined “success” as this theme has not been developed in the literature. We therefore seek to define it from the view of the participants themselves. The concepts itself are from the Research Question of this thesis:

*“Why are some foreign venture capital firms more successful in global venture capital investing than others and how do they ensure this success?”*

Based on the participants’ interviews, we determine what the concept of “success” means to the VC participants and from there we seek to determine how they become successful. It is very important to note here that it is not the objective of this thesis to define or develop the concept of “success”, that definition is merely a “prelude” to the real objective of this dissertation - that of determining how foreign VCs ensure success when investing in Asia.

Once we have determined what “success” means to the VCs we then ask them how they become successful or in the case of failed firms why they failed and what they could or should have done to be successful. We also seek to determine how successful firms

sustain their success over the longer term because some of these VC firms have been around for several years and have also made it through two major crises the first in 1997-1998 being the Asian financial and currency crisis and the second the bursting of the dotcom bubble in the USA in 2000. From the answers to the interview questions we can then determine the reasons for the success and from those reasons determine the relevant categories.

#### **4.2.2 Developing Categories**

As this is a Grounded Theory methodology, we do not impose any categories or suggest any categories to the participants. The questions are semi-structured but open-ended and give them the opportunity to provide open answers to the questions, which are conceptual questions based on "success". Examples of questions asked are as follows:

- a) What are the primary reasons for your firm's success?
- b) How do you sustain the success of the firm?
- c) What do you see as the main threat to future success?
- d) What strategy do you use to sustain the success of your firm?
- e) Strategically how did you manage changes in the business environment e.g. the NASDAQ crash, Asian financial & currency crisis, etc.?
- f) What are the main factors that can impact on regional investments & how do you manage these investments?

The open-ended questionnaire example is provided in Appendix F at the end of this dissertation. The above questions are from the last interview done with Mr. Peter Chan of Barings Communications Equity Asia (BCEA) (see transcript Appendix B Case Reference A2). Based on the answers to these open-ended questions categories are developed as shown in the next section.

#### **4.2.3 Developing Categories from data in the dissertation**

Based on the answers given by the participants we then look for common categories, i.e. categories that appear through the use of specific words or sentences that convey a particular meaning. This is a two-step process as shown in Figure 4.3 below.

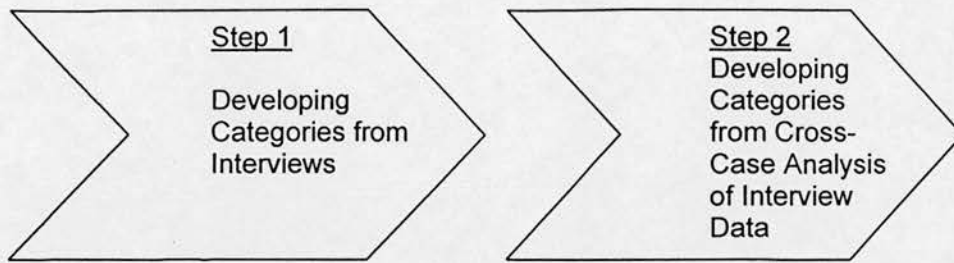


Figure 4.3: Two-step process of developing categories from data

In the first step, we look for categories from the interview data with each manager. Hence we will look for common categories that appear when each manager of a firm is interviewed. This step is shown below in the example of the interview with Peter Chan of BCEA (For complete details see Appendix B - Interview Transcripts, Case Reference A2).

a) Category 1 – Intangible Resources - Knowledge, experience and expertise

- Team members are the most important. [Emphasis made by Chan].
- They are also in constant touch with their counterparts in UK, India, USA, etc. This allows them to share ideas, thoughts and also seek opinions on investments.
- Also noted his worry during the dotcom boom that they did not have enough knowledge about ICT especially related to Internet investments. They were worried that their knowledge was no longer relevant because Internet investing was booming but they lacked the knowledge to invest in that particular industry.
- The team also had media experience. This strategy enables them to leverage on their experience
- Their focus on TMT also enables them to enhance the value of their investments. This is again related to their experience in this sector
- The team is continuously conceptualising and sharpening their product differentiation. This relates to continuous learning and adapting to the market to keep them relevant.

Throughout the interview there is a continuous emphasis on the management team, their expertise in the technology, media & telecommunications sector and the experience that

the firm and the team members have. The above excerpts are found throughout the 1 hour and 35 minute interview. From this it can be determined that there is a possible category for knowledge, experience or expertise and this leads to the possibility of theories based on the firm's resource base, which will be categorised as "Intangible Resources". Full details of this form of category development are provided in Appendix A1 - Development of Categories from Interviews.

Further categories were also discovered in the Chan interviews as follows:

b) Category 2 - Dealflow

- ❑ Don't be a single country fund, so BCEA will do one ASEAN deal for every two China deals
- ❑ There are increased efforts towards early exits and also getting pre-fixed buyers then finding the deals and structure them for a sale
- ❑ ... can they uncover value in the deal
- ❑ There are also innovative deal structures like asset securitisation deals.

Although there isn't as much emphasis on deals as there is on knowledge or experience, the above statements indicate that deal making, structuring and finding deals is important and as such can be categorised into the category of "Dealflow".

c) Category 3 - Exits

- ❑ There are increased efforts towards early exits and also getting pre-fixed buyers then finding the deals and structure them for a sale
- ❑ In Malaysia they have to identify good Bumiputra companies and then fund their IPOs
- ❑ There are three main factors that can impact on investments... The third is exits. Since exits are the key to successful investments, every market must have an exit strategy.

The importance of exits is stated clearly in the interview, as it is one of three factors that can impact on investments. Again there is repetition throughout the interview. Hence we have a category called "Exit".

d) Category 4 - Networks

- ❑ BCEA has good regional contacts and validation of the technology within different regions.
- ❑ ... can they uncover value in the deal, show the investee firm's CEO the value and build a relationship with the company
- ❑ It is important to be able to bond with investors and build good relationships.
- ❑ Both the LPs and team members are also all locals. They also use all local partners e.g. local securities houses. Partners may also be investors or co-investors.

The need for contacts, building of good relationships, the ability to bond with investors and the use of local partners are all elements of networks and networking and is therefore classified under the category of "Networks".

Categories 2, 3 and 4 will as a group be labelled as the classic venture capital factors as these are factors that appear in the venture capital process shown in Section 1 and have been identified in other venture capital research as shown in the literature review. This also allows us to have two separate groups of categories, one being a category based on the firm's intangible resources and the other on factors not specific to resources, which we shall term the dominant or classic view of venture capital.

The second step is to perform a cross-case analysis of all the cases to discover if these categories are repeated among the other cases and interviews. This second step enables us to discover the commonality of occurrences of the categories. When these categories occur throughout the cases then patterns are discovered and relevant categories are discovered. This is shown in the section that follows.

#### **4.2.4 Cross-Case analysis and iterative category development**

The process of developing categories is an iterative process of analysis and re-analysis. This is done through a multi-stage and multi-level analysis process by constantly comparing the interview data of each respondent not just with another respondent in the same firm but also with other respondents in other firms. It is a complex process of comparing and re-comparing data, which is why Glaser & Strauss (1967) require that the analysis be done very in-depth rather than very broad across many cases. This is also why only 6 cases were chosen for this dissertation.

An example of this process of iterating and comparing data across many respondents is shown in Figure 4.4 below. This figure shows the respondents statements on "experience" and shows just four respondents, but includes the first interview, the last interview and two interviews in-between. The "arrows" show how the iteration and comparison happens. Text which indicate a particular category is placed in the matrix "cells" and as each interview progresses these text are compared to text from other respondents and from there categories are found. In this example, statements on "experience" as a factor that is important for success is made by different respondents and as these statements are compared as an ongoing process, back and forth and when many respondents keep saying the same things "categories" appear. These appearances of categories are then recorded based on their occurrences in Appendix A2 and from them categories are developed (also see Table 4.1 in section 4.2.5 below). We will now see how these occurrences are developed in section 4.2.5 using a more systematic process.



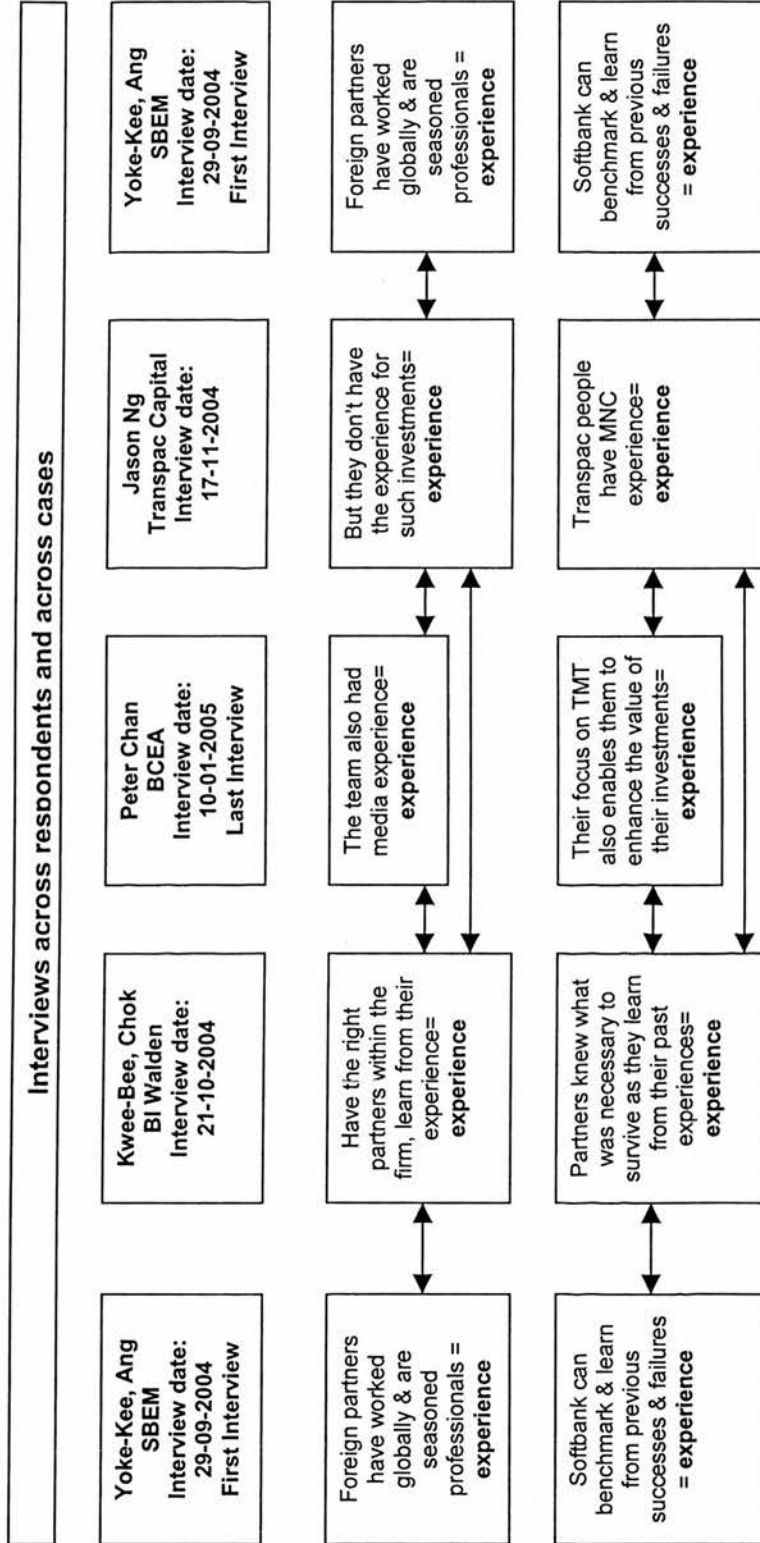


Figure 4.4 Process of iterating and comparing data to develop categories

#### **4.2.5 Cross-Case Occurrences of the Categories**

Based on the above and on the 14 participant interviews in 6 cases, the above categories are a common occurrence in many of the interviews and across the different cases; hence in this second step we will look for categories using a cross-case matrix. However, there is a need to provide a more viable method of showing how often the categories occur among the many interviews.

The method that will be used in this dissertation is the “evidentiary method” used by Hargadon & Sutton (1997). Here the occurrences are indicated by how much evidence there is of the category in the interviews on a case-by-case basis. They used the method in their meta-matrix to track evidence supporting the process of technology brokering at a technology design firm. They classified the evidence as follows:

- ❑ Sporadic evidence = a theme that appears now and then in the data source and is consistently supported
- ❑ Moderate evidence = a frequent but not constant theme in the data source that is consistently supported
- ❑ Strong evidence = a dominant theme in the data source that is consistently supported

This dissertation will adopt a slightly modified version of Hargadon & Sutton (1997) by including the use of the number of occurrences of the category. The use of a number allows for a more systematic method and also reduces the potential for bias. However as this is not a scientific method, the use of the word evidence in this thesis may not be as appropriate and will be substituted with the word “support”. This method strengthens the audit trail for other researchers. The “support” classification is as follows:

- ❑ **“No support”** means there is no mention of the category in the interview and hence there is no support.
- ❑ **“Some support”** means there is some mention of the category in the interviews, at least 1 mention and it is consistently supported
- ❑ **“Moderate support”** means there are at least 2 mentions of the categories, and they are consistently supported

- **“Strong support”** indicates that the participants repeat the category very often throughout the interviews with at least 3 or more mentions and they are consistently supported.

A detailed analysis of the transcripts show that there are several categories that appear in the interviews. Any category that appears at least once in the 6 cases will be included in the matrix in Appendix A2 - Developing Categories from Cross Case Analysis of Interview Data (an extract of which is shown below as Table 4.1) and classified using the “support” method above. However the categories that will be selected for detailed analysis and pattern matching will be those where there is a consistent pattern that is shown mostly as “strong support” and some as “moderate support” in all the case interviews.

In categories where there is some “strong support” from the cases but also in other cases either “no support” or “some support” then at best the conclusion is that this is classified as “moderate support” and will not be considered as a significant category. This again is not a scientific methodology and some intuition and creativity will be used in the analysis.

Category/ Firm	A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	E) SBEM	F) Transpac Capital	Conclusion
RBV: Management Team Experience	Strong support	Strong support	Some support	Strong support	Strong support	Strong support	Strong support
RBV: Knowledge Sharing	Moderate support	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
Exits: Depth of Capital Markets	Strong support	Moderate support	No support	Strong support	Some support	Strong support	Moderate support
Networks: Networking Skills	Moderate support	Strong support	Some support	Some support	No support	No support	Some support
Others: Government Policy / Support	No support	Some support	No support	Moderate support	Some support	Some support	Some support

Table 4.1: Sample for Deriving Categories Based on Case Interviews

From the above it can be seen that for “Management Team Experience” the interviews show “strong support” in 5 cases and “some support” in one case, so the overall conclusion is that it shows “strong support” and will be used for detailed analysis as a category. However, for “Depth of Capital Markets” there is “strong support” in 3 cases but in the other 3 cases it ranges from “no support” to “moderate support” so at best we can conclude that there is “moderate support” overall so this is not a significant category for in-depth analysis. In the category “Government Policy/Support” it ranges from “some support” to moderate support” only so clearly it is not significant and will not be used for detailed analysis.

This method of selecting the categories for in-depth analysis is in keeping with the recommendation of Yin (1994) that the analysis should address the most significant aspect of the case study; the largest issues not the minor ones. Thus only when the support appears strongly in many of the cases will it be taken as a significant aspect and used as a significant category. For the complete categories and the final selections please see Appendix A2: Developing Categories from Cross Case Analysis of Interview Data.

#### **4.2.6 Selection of Significant Categories**

From the analysis as shown in full in Appendix A2, there is confirmation of four significant groups of categories that are consistently supported as follows. It has to be noted that the major category headings of Intangible Resources, Dealflow, Exits and Networks are just headings used to show groups of categories and are not meant to be categories in themselves. Hence the four significant groups of categories that were found by the iterative and comparison process are as follows:

a) Intangible Resources categories:

- Management team experience
- Expertise and knowledge base
- Knowledge sharing
- Market knowledge and continuous learning
- Independence of management team

b) Dealflow categories:

- Identifying and securing deals

- Availability of deals in the market
- c) Exits category:
- Viability of exits in the market
- d) Networks category:
- Value of networks

For the sake of simplicity, these will henceforth be used as categories and sub-categories in the more detailed within case and cross-case pattern matching.

### 4.3 Within Case Pattern Matching

Once the categories have been formed as above, the second part of the framework is to conduct the pattern matches to discover common patterns. There are three steps involved in within case pattern matching as shown in Figure 4.5 below: the first is to match patterns from the interviews conducted with managers in the same case and to discover from these matches the patterns that are common to them. The second step is to match these common patterns with data from other relevant sources in a meta-matrix, the triangulation aspect of the data. The third and final step is to look for corroboration and contradictions in the patterns.

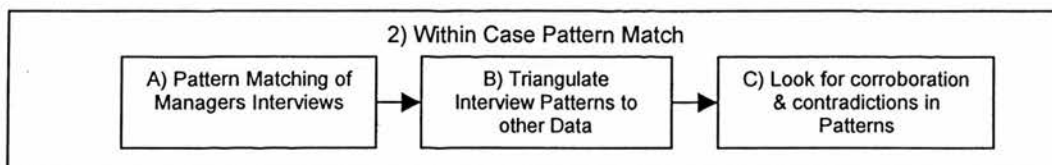


Figure 4.5: Within Case Pattern Matching – Framework Extract

#### 4.3.1 Within Case Pattern Matching – Multiple Interviews Within Case

In this section we will review the first step in the process: pattern matching of the managers' interviews. For each case between 2 to 3 senior managers or firm partners have been interviewed. In some cases where their time has permitted more than one interview has been conducted for each manager. These interviews were then transcribed. For the pattern matching the most significant categories have been selected

based on the category occurrences as mentioned above. To reiterate the four categories that are significant and have been selected are – Intangible Resources, Dealflow, Exits and Networks.

Pattern matching for the cases are done by comparing selections of the statements that relate to each category from the transcripts of each interview. These selections are then placed into cells in the matrix and compared for common patterns. By using the Grounded Theory methodology of constant comparison, common patterns are slowly discovered. The process of constant comparison also results in the elimination of statements where there are no patterns or where there is duplication. Where there is duplication, duplicate statements are eliminated or combined. Where there are no common patterns the statements are deleted, as the objective is to look for common patterns. The final product is a series of cells with common patterns between the different managers. This is demonstrated as shown in Table 4.2 (following page), using a sample of the Data Analysis for the BCEA case study (Appendix G1).

As the data-matrix sample shows there are five common patterns that emerge in the Intangible Resources category in this particular case. The patterns relate to the following sub-categories of the Intangible Resources:

- a) Experience
- b) Expertise and knowledge base
- c) Knowledge sharing
- d) Market knowledge & continuous learning
- e) Independence of the Management Team and team building

These are the common patterns that emerge after constant comparisons between the transcripts of the two partners in BCEA, Mr. T.S. Yong and Mr. Peter Chan. The same comparison method is done individually for each of the other 6 cases and the common patterns for those cases are also identified. It must be noted that the patterns that emerge for each individual case are not necessarily the same as those for BCEA here or even among the different cases. Some are similar but others are not, as should be the case. However this is still only the first of several more comparisons and matches before we get to the final patterns. The next step is a within case meta-analysis for triangulation of multiple data sources.

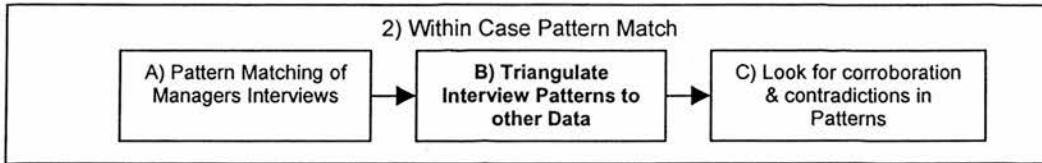


(Case A) BARING COMMUNICATIONS EQUITY ASIA			Appendix G1
Within Case Pattern Matching of Interview Data			
(i) Intangible Resources-			
Category/Name of Participant	Yong Thian Tze	Peter Chan	Analysis & Comments
<b>Experience</b>	The firm came to Asia in 1996 wanting to replicate what they did successfully in Europe in 1993/1994.... in the Telecommunications, Media and Entertainment industries	The team also had media <u>experience</u> . Their focus on TMT also enables them to enhance the value of their investments.	There is a clear indication of the importance of experience to their strategy & their fund. The domain experience is relevant to their success, enabling them to leverage on their experience in the Fund's industry focus.
<b>Expertise &amp; Knowledge Base</b>	Partners are confident because of the knowledge base within the firm and their expertise in the markets and industries.	Team members are the <u>most important</u> . They must have the <u>right people</u> . They don't really evaluate their team but rather look at it from a "product" angle. What products must you do to differentiate from the other funds? These products must be supported by the team's expertise.	The importance of the team's expertise and knowledge base is emphasised. This is also related to their industry focus. Thus both Partners deem knowledge base & expertise important.
<b>Knowledge Sharing</b>	They can also leverage on their offices in Singapore (HQ), Taipei, Beijing, Seoul and soon Shanghai. If necessary they do call their fellow fund managers for opinions, but not for decision making or strategic planning.	They are also in constant touch with their counterparts in UK, India, USA, etc. There is support from the extended Barings group including the US and UK. Their partners globally have an agreement to support each other	There is extensive knowledge sharing between their different country funds even though it is on an informal basis as each fund is independent. This allows them to share ideas, thoughts and also seek opinions on investments.
<b>Market Knowledge &amp; Continuous Learning</b>	Even for their firm, it is more important for their investment partners to have "on the ground" presence, to know the market and the players. To do this they need to network, they must have the skills and experience. ....but more important is the ability of their investment partners to "smell out a deal"	The team is continuously conceptualising and sharpening their product differentiation. ... worry during the dotcom boom ..that their knowledge was no longer relevant because Internet investing was booming but they lacked the knowledge to invest in that particular industry. Worried that bec. of this lack of knowledge they would be left out of the Internet growth industry	In-depth knowledge of their market and continuous conceptualising and sharpening of skills relates to continuous learning and adapting to the market to keep them relevant. The possible lack of knowledge in an emerging field is emphasised here. The Partners reinforce experience and market knowledge of the team.
<b>Independence of the Management Team</b>	BCEA runs autonomously. Previously they used to have a common Investment Committee and an Advisory Committee for all their global funds, which makes the final decision on the deals but this is no longer the case. The partners make all the decisions and have their own Investment Committee.	The management team is decentralised and team focused. The goal of the firm is to provide a career path for their team members. The idea is to make it a profession and team members can make "partner" within 5 years. The return on funds is shared with the team.	The Fund is totally independent in making its investment decisions. The emphasis is on building up the team and enhancing their knowledge for the long term. Human capital is clearly important to the Firm. Team building is emphasised.

Table 4.2 – Within Case Pattern Matching of Multiple Interviews – BCEA – Case A

#### **4.3.2 Within Case Pattern Matching – Triangulation of Data Sources for Meta-Analysis**

The second step in the process is to validate the interview patterns by doing a within case meta-analysis for each case, i.e. by triangulating and matching what has been discovered in the interviews with other data including quantitative data. This step in the process is highlighted in bold in Figure 4.5, as reproduced below:



**Figure 4.5: Within Case Pattern Matching Framework Extract**

The matching and comparisons must however be classified by looking for relevant data to match. We have many different types of data sources as follows, mostly quantitative & one qualitative:

- a) Biodata on the management team – including experience, expertise, qualifications, firms where they worked and association memberships if any.
- b) Portfolio of investments (type of investments made)
- c) Exits - IPO and M&As
- d) Information on the firm's investment space or focus
- e) Geographic focus of the firm
- f) Geographic reach including network of offices and regional investments; and,
- g) Investee company interviews for some of the cases (qualitative)

While there are many different sources of data that can be used for triangulation, not all sources are relevant for each category. Hence in matching the sources of data to each category and sub-category, we have to take into consideration the relevance of the data and the contribution that it makes to the particular category. Some sources of data can provide validation for several categories but may be irrelevant for other categories.

For example the Biodata of the managers and the wide spread of their offices can provide validation for the following categories of the Intangible Resources:

- a) Management team experience – by looking at their experience in their respective fields, whether their previous work or fund experience was in their relevant focus

area, whether they have IPO'd any investee companies or done any M & As or trade sales.

- b) Expertise & knowledge base – by looking at their past experience, their qualifications and expertise, we can gauge their expertise and knowledge base in their respective focus areas. For example, in the case of BCEA, Mr. T.S. Yong has worked as Country Director for Singapore Telecommunications, the largest telecommunications company in Singapore (or even in South East Asia) so he will have vast expertise in the telecommunications field, one of the focus areas of BCEA.
- c) Knowledge sharing – here, having a wide network of offices in the region and having regular meetings (based on their interview comments) can be validation of knowledge sharing. This is not a perfect science, as knowledge sharing is not easy to validate, but by having regular meetings with a wide network of managers is one means of verifying this.
- d) Market knowledge & continuous learning – again this can be verified by basing it on several aspects. One important element of market knowledge is the use of external experts especially a separate Advisory Committee or Board, such as the ones that Walden and H&Q have. Such experts provide a wider knowledge of markets not currently available to the managers and as such extend their market knowledge base. Use of other external experts further enhances this particular knowledge. The Biodata of the managers interviewed as well as the Biodata of other managers in their firm or group even those not interviewed are also relevant to show additional knowledge. Also where there are managers with wide qualifications this can also provide some validation of knowledge & continuous learning and if they attend particular learning seminars or courses like the VC Institute, this also is evidence of continuous learning. Again this is not a perfect science but it does provide a good gauge of this sub-category.
- e) Independence of the management team – this can be validated from the perspective of the experience and expertise of other managers within their regional offices. If they are managers with wide experience both in VC funding as well as industry experience and they are given appropriate titles, say Country Manager or Managing Director, then it can indicate independence.

However, the Biodata information cannot provide validation for say the availability of dealflow. This has to be validated through other data sources.

There is no guarantee that the above are 100% validation of any of the categories. In some cases it may be virtually impossible to validate, for example, how do we confirm that they have good networks in a particular focus area? We can make assumptions that the fact that they have a wide network of regional offices or that they have worked in many different funds or industrial companies before or even that they have memberships in VC Associations can amount to having good networks. Perhaps even the fact that they have listed many companies can amount to being well networked. Some assumptions will be made to enable triangulation and validation of data.

The methodology used will be similar to that made for classification of categories as per section 4.2.4 above i.e. a modified version of Hargadon & Sutton (1997). Hence we will use the criteria of “no support” to “strong support” in the within case pattern matching of triangulated data to come up with the final conclusions for each of the six cases.

A complete list of the assumptions made for triangulation of data and validation of the interviews is provided in Appendix H with an extract provided here as Table 4.3 showing three aspects of the management team's Biodata and how it affects the different categories. For example in terms of their experience and domain knowledge, this will have an impact on the categories related to Intangible Resources, Dealflow and Networks but not the Exits category. Also from their Biodata we can see their Society memberships which again can affect categories like Intangible Resources and Networks because leadership positions in say the Malaysian Venture Capital Association (for example Chok of BI Walden is a Past President) would equate more experience, can validate expertise and would create an avenue for better networks.

	Management Team - Biodata		
	Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Association / Society Memberships
Content of Information of multiple data sources and link to categories	The Management Team Biodata will provide details of experience, qualifications and expertise as well as other pertinent data. Check for Advisory committees & use of external professionals	Based on the experience of the team & whether they have wide working experience in VC funds or in industry	Look for memberships in related organisations e.g. VC Associations, Government committees, etc
	(i) Intangible Resources		
a) Management Team Experience	Look for experience within their area of investment focus	Greater experience in other VC funds or in cos. related to their focus the more valid the confirmation of experience.	Leadership positions will equate more experience. Not ordinary membership
b) Expertise & Knowledge Base	Wide expertise in focus industries & strong knowledge base in the team is strong support	Greater experience in other VC funds or cos. related to their focus - more valid the confirmation of expertise & knowledge	Leadership positions in relevant organisations can validate expertise
c) Knowledge Sharing	Spread of management team around the region, wide experience & regular meetings indicate propensity to share	NR	NR
d) Market Knowledge & Continuous Learning	Strong support if team is diversified with wide expertise & knowledge. Advisory committees & external professionals necessary. Multiple qualifications also indicate propensity for continuous learning.	The wider their experience & scope of firms worked in the greater their market knowledge esp. if worked in industry.	Membership of associations can mean continuous learning & more market knowledge
e) Independence of the Management Team	Management independence is assumed if they have appropriate titles like Country Manager.	NR	NR
	(ii) Dealflow		
a) Identifying and securing deals	Work in multiple successful firms or having successful investments & exits at prior firms is evidence of ability to identify & secure deals	The more experience in different successful firms with successful investments & exits is evidence of ability to identify & secure deals	NR
b) Availability of deals in the market	NR	NR	NR
	(iii) Exits		
Viability of Exits in the Market	NR	NR	NR
	(iv) Networks		
Value of Networks	Work in multiple successful firms or having successful investments & exits at prior firms is evidence of good networks	The more experience in different successful firms with successful investments & exits is evidence of good networks	Membership of associations and leadership positions indicates propensity to network

**Table 4.3: Assumptions - Triangulation of Multiple Data Sources - Within Case Pattern Matching**

Another set of data that has been used for validation is interviews with investee companies. This is qualitative data and will be used for validation only for the cases that



the investee companies relate to. However, there is no investee interview data for several companies, as some respondents requested that no interviews be conducted.

In the case of BCEA we could not interview any investee company, as the BCEA partners discourage this and in keeping with the privacy and request of the partners this process was not done. For Softbank, as they never made any investments there were none to interview although they did consider investing in The Media Shoppe (TMS) and interview data is available here. There are no interviews for H&Q Thailand because of distance and language problems while for Transpac Capital their investments were in Singapore and East Asia. Their office in Singapore declined cooperation and East Asia was geographically distant. Hence investee company interview data is only available for BI Walden, Softbank and MSC Venture Corporation.

**4.3.3 Within Case Pattern Matching – Corroboration & Contradiction**

The third step in within case pattern matching is to find corroboration and contradiction in the meta-matrix analysis of interview data and triangulated data. This step in the process is identified with the box in bold below in Figure 4.5, which is reproduced here for convenience.

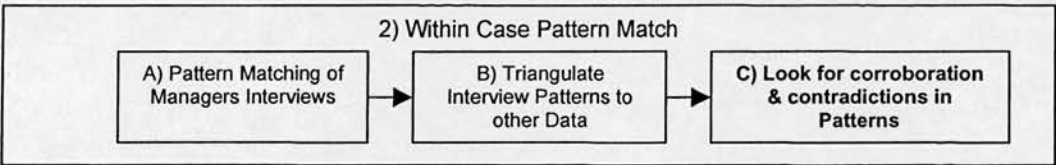


Figure 4.5: Within Case Pattern Matching Framework Extract

By comparing the interview patterns with other data mentioned above, we can find corroboration and contradiction for the patterns. Where there is contradiction in the patterns then there is no confirmation of the data and this cannot be used for matching with other cases in the cross-case pattern matching or to formulate theory, unless it is used as a negative for the theory.

One example is that the managers of SBEM state in their interviews that there is a lot of knowledge sharing between their firm and their headquarters, but there is no evidence of such sharing as none of the headquarters managers were involved in the firm and none were even shown to be part of the firm. This is unlike BI Walden where their US office



and partners as well as their CEO was actively involved in the firm. Interview data with one of their investees shows the involvement of their US partners and confirms knowledge sharing. However, in SBEM there were no indications of such involvement, hence the assumption will be that there is no evidence of knowledge sharing. This contradicts their interview data but is nevertheless valid in theory formulation.

However where the interview patterns are a match to the other data then there is confirmation and the confirmed patterns will then be used in the next stage of the process for cross-case pattern matching. An example of the within case pattern matching conclusions for interview data was given earlier in Table 4.2 for the BCEA case for the Intangible Resources. The full within case matching of interview data is provided in Appendix G1 to G6, while full matching of interview data with triangulated data for all cases are given in Appendix C1 to C6. The conclusions of the within case pattern matching using triangulated data will then be used for the cross-case pattern matching, the next stage of the matching process as follows below.

#### 4.4 Cross-Case Pattern Matching

Once the within case pattern matching has been done the next stage is cross-case pattern matching as shown in Figure 4.6 below as extracted from the Analysis Framework provided in Figure 4.1 earlier.

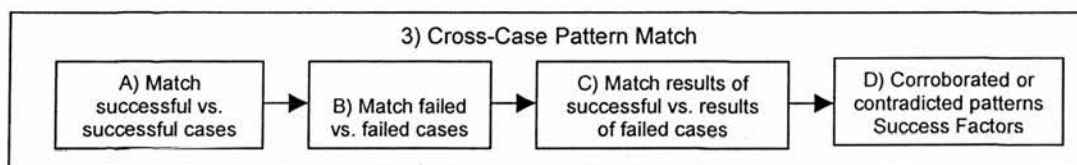


Figure 4.6: Cross-Case Pattern Matching Framework Extract

In this stage, the conclusions reached for the within case pattern matching which includes meta analysis of triangulated data for each case is collated and placed in a matrix for cross-case analysis. By comparing the results of the different cases in a cross-case analysis we will be able to determine the reasons for success or failure of the firms and this provides us with robust conclusions that can be used for generalisation amongst the cases and for the development of theory. The use of matrix-analysis allows comparisons to be made across different cases.

In the first stage of the cross-case analyses two separate analyses will be made:

- a) The first analysis (as shown in the first box in Figure 4.6, i.e. A) Match successful vs. successful cases) is comparisons between the four successful firms - BCEA, BI Walden, H&Q Thailand and MSC Venture Corporation. This analysis allows us to establish commonalities between the four successful firms and what led to their success.
- b) The second analysis (as shown in the second box in Figure 4.6, i.e. B) Match failed vs. failed cases) is the comparisons between the two failed firms in this case i.e. between SBEM and Transpac Capital. This analysis allows us to find commonalities between these two failed firms and enables us to establish if there were reasons for their failure.

The second stage is to compare the findings of the analysis for successful firms vs. failed firms (box C) in Figure 4.6) and the final stage is to look for corroboration and contradictions (box D) in Figure 4.6). This will then lead to generation of propositions and later theoretical formulation. We will now look at examples of each of these stages separately.

#### **4.4.1 Example of Cross-Case Pattern Match – Successful Firms**

As an example say if we choose the Intangible Resources category and compare the findings for the experience of the management team and find say, that in the successful firms they have a lot of relevant experience but in the failed firms the management has little or no experience, then we have a proposition that experience is a necessary condition for firm success. This proposition can lead to the formulation of meta-propositions based on the Intangible Resources. As in the earlier analyses, we will use the evidential analysis method of Hargadon & Sutton (1997), as modified, to perform the analysis.

As shown by the example in Table 4.4 below, all the four successful firms have management teams with a lot of experience. There is thus 'strong support' of experience in all the firms and this leads to an overall conclusion that there is "*strong support*" of experience (Full details are given in Appendix I1). This conclusion will then be used to compare with the conclusion obtained in comparing the failed firms as seen in section 4.4.2 below.

	Cross Case – Successful Firms				
Category/Firm	A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture	Conclusion
(i) Intangible Resources					
Management Team Experience	Strong support. Team is very experienced especially in their investment space.	Strong support. There is overall validation. Mgt team is very experienced in VC investing, successful exits and global investments.	Strong support. Overall there is validation that experience is necessary for firm success. The firm overall has vast experience though country team experience is a little limited	Strong support. There is overall validation of experience. Team & CEO have vast experience in VC & industry	There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. Most also have experience in their selected investment space.

**Table 4.4 - Cross Case Pattern Matching – Successful Firms**

#### **4.4.2 Example of Cross-Case Pattern Match – Failed Firms**

An example of the cross-case pattern matching for failed firms is given in Table 4.5 below. Using the table we can see that for management team experience in SBEM's case there is only "*some support*" of experience because although the team have industry experience, they don't have any VC experience. In the case of Transpac, there is "*moderate experience*" because although the Vice President has some VC experience, due to the change of strategy of Transpac from venture capital to private equity style investing this experience is not fully relevant. Also as the firm has been changing its investment focus, even their industry experience is not always relevant. Hence their experience only provides "*moderate support*" of management team experience. (Full details are given in Appendix I2). This conclusion will then be used to compare with the conclusion obtained in comparing the successful firms as seen in section 4.4.1 above. This comparison is shown in the next section 4.4.3.

	Cross Case – Failed Firms		
Category/Firm	E) Softbank - SBEM	F) Transpac Capital	Conclusion
(i) Intangible Resources			
a) Management Team Experience	Some support of experience. None of Mgt team had experience in VC, only industry experience.	Moderate support of experience. Some VC experience and low industry experience.	Only moderate to low experience shown by management team. Some industry experience shown but unable to prove mettle based on investments.

**Table 4.5 - Cross Case Pattern Matching – Failed Firms**

#### 4.4.3 Example of Cross-Case Pattern Match – Successful vs. Failed Firms

The next step is to compare the results of the successful and failed firms. By comparing the patterns of the successful vs. failed firms (Table 4.6 below and Appendix I3 for the full details) we can see that there is a gulf in the level of experience between the successful and failed firms. A possible conclusion from this analysis is that experience is necessary for success and the lack of experience led to the failure of the two firms. This is only an example; the full analysis in the results section (Section 5) will further develop these findings.

Category/Type of Firm	Cross-Case Successful v Failed Firms		Conclusion
	Successful Firms	Failed Firms	
	(i) Intangible Resources		
Management Team Experience	There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. Most also have experience in their selected investment space.	Only moderate to low experience shown by management team. Some industry experience shown. Transpac VP has VC experience but little experience in their changing market space. Lower levels of experience in both cases could have impacted on their success.	Experience matters. The successful firms have a clear advantage over the unsuccessful ones due to the experience of their mgt teams in their investment space. This is especially so in having VC & investment experience. Industry experience is also clearly present in successful firms. Both failed firms have less experienced mgt & in one case while they have experience it is not in their investment space.

Table 4.6 - Cross Case Pattern Matching – Successful vs. Failed Firms

#### 4.4.4 Summary of Cross-Case Pattern Matching

As can be seen from the examples given, this methodology is a very robust and viable methodology for qualitative analysis especially in explorative studies. It is very precise, has a proper flow and strategy and provides valid findings that are easy to corroborate. Also, because of the audit trail, it can be traced back through its entire path by another researcher to look for failings or shortcomings and if necessary another researcher can use the same methodology to test the findings among a different group of cases.

#### 4.5 Conclusion on Methodology and Research Design

We have seen from Chapters 3 and 4 that this is a robust and reliable methodology. The methodology is suitable for this dissertation for several reasons. As was shown in the literature review in section 2.5, we have determined that the existing literature on global venture capital is scarce and does not answer the research question and we have therefore concluded that an exploratory form of research is desirable to achieve our



objectives. We also concluded that we need a research design that enables the development of propositions or meta-propositions due to the lack of theory in the literature relating to global venture capital from a South East Asian context. This research design has to be an inductive design to enable the discovery of new themes and ideas in this under-explored field and it should not be overly structured. Finally we concluded that as an exploratory research design it would be better to seek answers using the respondents' own language and meanings.

Based on these requirements, we sought an open exploratory methodology and research design and decided that the Grounded Theory and case study methodology was the most suitable for this dissertation. It was suitable as it enabled in-depth analysis to be done using a few cases but these cases were studied in greater depth to produce new ideas and propositions. This methodology gave the researcher the opportunity to really explore and by not constraining the researcher or the respondents interesting ideas could develop. However, care must be taken that the methodology is both viable and would stand the test of robustness.

As shown in Chapters 3 and 4 above, we have achieved these goals. The Grounded Theory and case study methodology is open, exploratory, viable and robust. Chapter 4 also demonstrated the workings of the methodology and how it will be used with the data that has been obtained in this dissertation. It is also robust because it uses both qualitative and quantitative data in the form of triangulation of the data sets. Its robustness is also demonstrated by the Audit Trail which enables the reader or future researchers to follow every step of the data back to its origins, thus enabling the reader to reconstruct the findings if necessary from the very beginning of data collection to the analysis and results.

The constant comparative methodology espoused by Glaser & Strauss (1967) has been used extensively in this dissertation and can be viewed by the reader in the multiple stages and levels of matrices and pattern matching that have been performed. While the Grounded Theory methodology is complex, the use of data matrices has made the data analysis more manageable and understandable for the researcher as well as the reader. Thus the methodology and research design meets the requirements of this dissertation and enables us to move forward to the next stage of the dissertation: the analysis and

results of the study. Section 5 provides a complete analysis and results of the data using the Grounded Theory and case study methodology.



## **5. Analysis & Results**

This section deals with the results of the data collection and the complete analysis using the Grounded Theory and case study methodology. The data will be incorporated into several matrices on which 'within case' and 'cross-case' pattern matching analyses will be performed. The key details of the analyses from the pattern matches will be presented here and the findings and conclusions analysed on a case-by-case basis as part of the methodology. Through this detailed analytical methodology corroborations and contradictions will be highlighted and conclusions will be made on the factors that determined the success or led to the failure of the cases in this study. These conclusions will then be utilised in section 6 to generate propositions.

The discussion in this section will be as follows. Section 5.1 will show the pattern matching for successful firms. There are two parts to this section in which analysis of cases will be done on a category-by-category basis. The first part consists of within case pattern matching where each firm will be analysed using both interview data and the triangulated data. This will be followed by the second part where the four successful firms will be compared to each other in a cross-case pattern matching. This cross-case pattern matching will enable the discovery of factors or reasons that lead to the group's success.

Section 5.2 will follow the same format but for the two failed cases. Here we will discover the factors or reasons that lead to the group's failure. This will then be followed by section 5.3 where the conclusions from the results of the pattern matching of successful and failed firms will be compared from which we will discover why firms are successful or why they failed. It is also worth noting that in this section the analysis will not be related to the wider literature at this stage as that is done very comprehensively in section 6.2 "Match with Enfolded Literature". This is in keeping with the Grounded Theory and case study methodology format. We start the process with the pattern matching for successful firms.

## 5.1 Pattern matching for successful firms

The objective of this section is to identify the role that each category plays in the success of each case and then to compare the cases to each other. The Grounded Theory and case study methodology requires detailed study of each individual case to identify common patterns for individual cases before these patterns are used to compare to the other cases.

We will again use Hargadon & Sutton's (1997) evidentiary method as adopted for this dissertation (explained in section 4.2.4 above) to show support of whether the category played a strong, moderate or even no role in the firm. The analysis will first look at the interview statements and then will match the statements with the triangulated data. Hence for each case within this study there are two types of pattern matching:

- Within case pattern matching of the interview data (full details provided in Appendix G1 to G6) and;
- Within case pattern matching of the interview data with other triangulated data (full details provided in Appendix C1 – C6).

### **5.1.1 Intangible Resources- Management Team Experience**

The first category among the categories grouped under the heading of Intangible Resources is Management Team Experience.

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that management team experience is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that experience is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as will be seen below.

#### **i) Barings Communications Equity Asia (BCEA)**

The analysis shows that there is strong support of experience in the BCEA management team.

The BCEA managers specifically mentioned the need for experience. T.S. Yong mentioned that BCEA invested in their focus areas successfully in Europe and wanted to replicate their success in Asia. He also specifically mentioned the need for their managers to have the skills and experience to be successful. Peter Chan indicated that the team had a lot of experience because they had gone through troughs and peaks in the investment cycle. He also mentions specifically their media experience and their strategic focus on TMT or technology, media and telecommunications, a strategy which enables them to leverage on their experience.

Based on triangulated data BCEA had a management team that had vast and long-term experience in their industry space. BCEA has a media and telecommunications focus and both the senior partners have many years experience in this space. Chan also has a lot of VC experience while Yong was Country Director of Singapore's and South East Asia's largest telecommunications firm Singapore Telecommunications. They also made many investments in the space and have exited these investments successfully.

#### ii) BI Walden

BI Walden and the Walden group also demonstrate strong support of experience in the management team. Experience is one aspect of management that is often mentioned by the managers in their interviews. Kwee-Bee Chok, the Country Manager, states that Walden learns from their partners and their experience. For example one of their investments, Sina.com survived the dotcom bust because the Walden partners knew what was necessary to survive as they learnt from their experiences in the past. Another example was that they learn how to fund adequately from their US counterparts; for example they know from experience that to design a chip requires at least US\$ 20 million, so any firm without this amount of funding will not be able to successfully design a chip.

Cindy Tee, an Investment Manager, states that they identify their strategic focus via the history of the group which started in semiconductors and evolved into software, Internet and Business Process Outsourcing, indicating the value of their past experience. Chee-Khen Chong, another Investment Manager, says that how they look at deals is different because they have experience of prior deals done by other global offices to guide them.

Walden has a particular focus on semiconductors and have listed the second largest semiconductor firm in Malaysia (Unisem) as well as the largest in China and one of the largest in the world, SMIC, Semiconductor Manufacturing International Corporation, which is listed in Hong Kong and NASDAQ. PrivateEquityOnline.com and the publication Private Equity International also voted Walden as the "VC Firm of the Year in Asia" for 2004 (Private Equity Online, 2005). Their CEO has been a VC for 18 years. The country manager for Malaysia is also vastly experienced as a corporate finance manager having listed almost 100 firms in Malaysia. The triangulated data shows that the team is vastly experienced and has been very successful for almost 2 decades.

### iii) H&Q Thailand

The analysis shows that there is strong support of experience in the H&Q group management team but there is some limitation in the experience of the Thai country team. The Managing Director, Virapan Pulges, does not specifically mention management team experience in the interview but confirmed its importance in a follow-up email. Investment Manager, Patan Somburanasin, states that the US management team and the regional Managing Directors meet quarterly to formulate strategy. They also meet to share experiences and fund performances. In a follow up email Patan also mentions that management team experience is crucial for their success.

Triangulated data shows that the H&Q group also has an experienced management team. The CEO has listed many investments successfully in the USA and Asia. They have vast experience in the venture capital industry and a very experienced regional team. They have also had many successful regional and global IPOs including on NASDAQ, indicating there is a lot of experience in the group. The Managing Director of H&Q Thailand was a senior executive in one of Thailand's largest seafood manufacturers and exporters and was also the President of the Thai VC Association. While the experience of the Investment Manager is less, it is made up for by the varied experience of the H&Q partners.

However, the country team experience is limited to industry experience and not to venture capital experience, although with three successful IPOs they would have gained more experienced.

#### iv) MSC Venture Corporation

The analysis shows that there is strong support of experience in the management team. The CEO Esmond Goei states that the investment model is based on their experience and knowledge. As an example he says that when they look at a deal, they have to “look beyond the deal”. He is implying that their experience allows them to do this and to see what others do not see in potential deals. The COO, Husni Salleh alludes to the value of experience by saying that personal success to him is to have managed a successful fund, to have that experience. Alan Tan, the Investment Manager measures the value that the CEO brings to the firm through the depth of experience that he brings from America. He also mentions the experience that Esmond has working for a Singapore VC fund.

From the triangulated data and from the Biodata of the team we can see that the firm has an experienced management team with a CEO who was a successful VC and entrepreneur and a COO who was formerly a senior manager with Walden. The managers have worked in a variety of firms and have been successful VCs and even entrepreneurs and bring this experience with them to the firm. They have also successfully listed many investments on the stock market bringing much IPO experience to the team. There is strong support of experience in the firm.

#### b) Cross-Case Pattern Matching<sup>10</sup>

The within case pattern matching is summarised in Table 5.1 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Team is very experienced esp in their investment space.	Strong support. There is overall validation. Mgt team is very experienced in VC investing, successful exits and global investments.	Strong support. Overall there is validation that experience is necessary for firm success. The firm overall has vast experience though country team experience is a little limited	Strong support. There is overall validation of experience. Team & CEO have vast experience in VC & industry	There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. Most also have experience in their selected investment space.

Table 5.1: Cross Case Pattern Matching Successful Firms - Management Team Experience

<sup>10</sup> The complete analysis and pattern matching for successful cases is given in Appendix I1.

Overall there is strong support that the four successful firms have very experienced management teams. Most have venture capital and investment experience and also vast industry experience. They also have a lot of experience with successful exits. All the managers also have experience in their selected investment space. This cross-case analysis shows that managers believe experience is an important factor in the success of these firms. Not only do the managers state that experience is necessary for success, this statement is backed up by the actual experience in the management teams of each firm as shown by the triangulated data. We can therefore conclude that experience is a necessary element of success in these firms.

### **5.1.2 Intangible Resources- Expertise and Knowledge Base**

The second category under this group heading is expertise and knowledge base and we shall now explore this category.

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that expertise and knowledge base is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as will be seen below.

#### **i) Barings Communications Equity Asia**

The analysis provides strong support that management has vast expertise and knowledge in their selected focus areas. In the interviews the managers specifically mention expertise and knowledge. Yong stated that the partners were confident (of success) because of the knowledge base within the firm and their expertise in the markets and industries. Chan emphasises the need for the "right people" in the management team, that the fund must be supported by the "team's expertise". He also mentioned their worry during the dotcom boom when they didn't have enough knowledge about the Information and Communications Technology industry especially related to Internet investments; that they lacked knowledge to invest in Internet businesses. There is a strong emphasis on their knowledge base and expertise.



In BCEA, based on their Biodata and investment data, there is strong support that management has vast expertise and knowledge in their selected focus areas. Their investment space is in the media and telecommunications industry and both partners deem expertise in their investment field important. They have multiple investments and also industry and VC expertise related to their investment space.

#### ii) BI Walden

The analysis shows strong support of expertise and knowledge base in the Walden management team. Chok emphasises that the firm must have the right partners to become a Tier-1 VC firm. She says that Walden partners are industry people and know the industry well. For example, one of their software partners Mary Coleman was from Baan a leading enterprise software company. All of their partners have built companies. Walden wants people with domain expertise. She also states that local VC firms lack knowledge and exposure. When Walden invests they depend on the domain expertise of the partners stating that in semiconductors Walden is in the top 5 in the world and no. 1 in Asia.

Tee states that there are five sectors in Walden and an industry expert heads each sector. Chong mentions that the founder of Walden is a long-term visionary alluding to his experience and also his expertise in making Walden a success. Also when they invest, they invest in areas they know best, confirming that their knowledge base is an important tool in their investment strategy. He also states that the expertise of other offices and partners is used often.

The triangulated data indicates that the Walden management team are highly qualified and have expertise in their investment space having done many prior investments and exited successfully. For example in software their senior venture consultant was a successful entrepreneur who sold his own software firm to a market leader and later joined the buying firm as a VP and General Manager. He is also very qualified with an MBA and a PhD. They also have many successful regional investments, which fit their knowledge base and expertise.

#### iii) H&Q Thailand

The analysis shows strong support of expertise and knowledge base in the H&Q group's management team but this is tempered by less expertise at the country level in Thailand. Virapan again does not specifically mention management team expertise in the interview but confirms this by email. However, Patan states that the industry they pick to invest in is important. If the VC has no expertise or uses the wrong strategy then it can lead to failure. They will also do business development and use their networks to help grow the company and also need to study the company's markets. He alludes to the value of the managers' expertise and knowledge base in business development and understanding the investee's markets. In a follow up email Patan also mentions that management team expertise is crucial for success.

From triangulated data we can see that H&Q Thailand has less expertise at the country level but more expertise at the group level. Their senior managers have expertise within their investment space having successfully exited many large investments including IPOs on NASDAQ, in Hong Kong, Tokyo and also Thailand. In Thailand the Managing Director has successfully exited 3 companies on the Thai Stock Exchange. While there is a lot of expertise in the group it is somewhat limited at the country level although the group does play a significant role in each country as well as the region.

#### iv) MSC Venture Corporation

The analysis shows strong support of expertise and knowledge base in the management team. Goei states that the firm's Investment model is based on the experience and knowledge of the management team. Husni believes that expertise is important because they need to do business development and even project manage their deals if necessary. They also do fund raising for their investee companies. The expertise of the firm is summed up by Tan when he states that "what works best is what we know best", that they invest in things that they understand; in companies that they can value-add. They must be comfortable with the industry. However he does say that in Malaysia there isn't sufficient expertise in the VC industry. There is recognition of the value of expertise to the firm.

The triangulated data shows that MSC Venture Corporation is one of the most successful VC firms in Malaysia. It has listed 5 firms successfully on MESDAQ. It was also one of the earliest to invest in early stage technology companies having started

investing in 1997. The CEO and management team have a lot of expertise and the CEO was also a successful entrepreneur. There is strong support of expertise in the firm.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.2 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support that expertise & knowledge base fits investment portfolio & space	Strong support. There is overall validation of expertise & knowledge. Multiple exits globally & expertise in focus industries is very clear.	Strong support. Overall there is validation that expertise & knowledge is necessary for firm success. The firm has a lot of expertise & knowledge though the country team expertise is somewhat limited	Strong support. There is overall validation of expertise & knowledge. Team & CEO show strong support of expertise & knowledge in VC, industry & even entrepreneurship.	There is also strong support that all the firms have expertise & knowledge that fits their investment space. Most also have vast VC expertise as well as IPO & M&A expertise.

Table 5.2: Cross Case Pattern Matching: Successful Firms Expertise & Knowledge Base

There is again strong support that all the successful firms have expertise and knowledge that fits their investment space. Most also have vast venture capital expertise as well as IPO and M&A expertise. Also, due to their past success in their investment space they have built up a strong knowledge base in their teams. This cross-case analysis shows that expertise and knowledge base is an important factor in the success of these firms. Not only do the managers state that it is necessary for success, this statement is backed up by the actual expertise and knowledge base in the management teams of each firm as shown by the triangulated data. We can therefore conclude that expertise and knowledge base is a necessary element of success in these firms.

#### 5.1.3 Intangible Resources- Knowledge Sharing

The third category under this group heading is knowledge sharing and we shall now explore this category.

##### a) Within Case Pattern Matching

The within case pattern matching data indicates that knowledge sharing is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the

within case meta-analysis and triangulated with other data for each firm as will be seen below.

#### i) Barings Communications Equity Asia

There is strong support of knowledge sharing in the BCEA group. Yong mentions that the team can leverage on their regional offices' expertise and knowledge base in their respective markets and industries. They also depend on their people on the ground to look at issues like regulations and other factors. They also call their fellow fund managers for opinions, indicating the sharing of knowledge. Chan specifically mentions the support from the extended Barings group including the US and UK where their partners globally have an agreement to support each other. They are also in constant touch with their counterparts in UK, India and USA, allowing them to share ideas, thoughts and also seek opinions on investments.

In BCEA, there was strong support of knowledge sharing among the different regional offices and the partners also indicated this in the interviews. There was also informal sharing of knowledge between the larger ING Barings group although there were no formal links among the international firms showing that they recognised the value of knowledge sharing even if it was done informally.

#### ii) BI Walden

There is also strong support of knowledge sharing in the Walden group. Chok mentions that they learn from their partners and their experience, confirming that there is knowledge sharing in the group. Their strategy is to meet regularly and they have quarterly management meetings (or QMM as they call it) at which they look at dealflow, syndicating and other issues. They also do weekly conference calls and she specifically mentions the sharing of views and knowledge among the partners.

Tee states that there is a lot of sharing of information between the various partners and they have quarterly industry group meetings. The industry heads also meet half yearly to look at the development of the industry and also perform an annual review of the industry. There is also a yearly strategy meeting and even at the lower levels, individual sub-committees also meet regularly to share information. Chong also mentions that

there are regular meetings by the respective country heads, the industry experts and by the CEO to formulate strategy.

The triangulated data indicates that regular knowledge sharing is enhanced by the wide spread of offices and the vast expertise and knowledge base of their many partners and their special advisory committee. The firm has many successful IPOs globally, and based on their success and the managers' confirmation of regular sharing, it can be concluded that knowledge sharing plays a big role in their success.

#### iii) H&Q Thailand

H&Q also show strong support of knowledge sharing in the group. Virapan states that the Managing Directors meet regularly on a quarterly basis. When there is a crisis like the Asian financial and economic crisis, the Managing Directors will also meet to study their strengths and weaknesses as well as the opportunities and threats (SWOT) to their business and will look at strengthening their SWOT. They also do conference calls when making investment decisions and for deals larger than US\$20 million then 2 members of the regional Investment Committee will also visit the investee company. This again shows the sharing of knowledge within the group. Patan also states that the US management team and the regional Managing Directors meet quarterly to formulate strategy. They also meet to share experiences and fund performances.

The wide spread of offices and vast knowledge of the regional partners and their special Advisory Committee alludes to the fact that the group most likely does share knowledge. The fact that both managers indicate that there are regular meetings to share knowledge and strategise on their investment focus and portfolio companies shows that the partners play an active role in knowledge sharing.

#### iv) MSC Venture Corporation

There is moderate support of knowledge sharing in the firm. Goei believes that the firm has a lot to contribute to the industry hence his interest in being engaged in domestic policy and the hope that the policymakers will solicit his views. Husni explains the requirement to talk to people overseas, to their networks. They will make more use of their networks to find out examples of the things that their contacts did. This is part of the



knowledge sharing at the firm. Alan states that Goei brings a lot of experience from America. Since he became CEO its not just about what they do but how they do it.

The interview data indicates that there is regular knowledge sharing among the management team, especially between their experienced CEO and the rest of the team. However it is difficult to obtain triangulated data to verify sharing as the firm is a single country fund. While there can be no group sharing because it is a single country fund the evidence of sharing within the firm is strong based on interview data.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.3 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Knowledge sharing is indicated in all relevant areas	Strong support. Diversity of offices led by an experienced Founder. Regular meetings of mgt team show knowledge sharing in the group	Strong support. There is adequate support that there is knowledge sharing in the group	Moderate support. There is some support of knowledge sharing in the firm but as it is a single country fund sharing is not extensive	Generally there is strong support that all the firms share knowledge on a regular basis. There is diversity in the Mgt teams & they meet regularly to share knowledge & experiences.

Table 5.3: Cross Case Pattern Matching – Successful Firms – Knowledge Sharing

In this category all the firms exhibit strong support of knowledge sharing among the management teams. Generally there is strong support that all the successful firms share knowledge on a regular basis. There is diversity in the management teams and they meet regularly to share knowledge and experiences. The firms' managers deem sharing of knowledge important and among the cases there is strong support of active sharing of knowledge between the partners of their different global and regional offices.

This cross-case analysis shows that knowledge sharing is an important factor in the success of these firms. It is stated by the managers as necessary for success and although it is not easy to back this up with triangulated data there is adequate support of this as well. We can therefore conclude that knowledge sharing is a necessary element of success in these firms.

#### 5.1.4 Intangible Resources - Market Knowledge & Continuous Learning



The fourth category under this group heading is market knowledge and continuous learning and we shall now explore this category.

#### a) Within Case Pattern Matching

The within case pattern matching data indicates that market knowledge and continuous learning is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### i) Barings Communications Equity Asia

There is strong support of market knowledge and continuous learning in the BCEA group. Yong stated that it was important for the investment partners to have on the ground presence, to "know the market and the players" and for their partners to have the ability to "smell out a deal", alluding to the importance of market knowledge. They also need to have people on the ground to look at market regulations in their different markets. Chan was also worried that they did not have enough knowledge of "Internet investing" especially when investing in that space was booming prior to the Dotcom bust in 2000. That led to the firm continually sharpening their product differentiation and continuously learning about the market in which they operate. This relates to continuous learning and adapting to their market.

The triangulated data shows that BCEA does have wide market knowledge. From their numerous regional offices to their successful investments and exits, they demonstrate good market knowledge. They also have access to the global offices of the ING-Barings group which provides them with additional sources of market knowledge.

#### ii) BI Walden

The Walden group also shows strong support of market knowledge and continuous learning. Chok says that their partners are industry people and know their industry well. Partners must also have good financial background and must read and learn all the time indicating the active role of continuous learning. They choose the industry to invest in and this choice may change depending on the market, for example they now look for digital consumer products and mobile technology investments. They are investing 3

years ahead of what they think the future will be, indicating that they are aware of what is happening in the market. They anticipate trends and change the business model if necessary and will also refocus their strategy depending on external events like their refocus after the Internet bust in 2000. They also benchmark not just against other VC firms but also other individual VCs showing market awareness and learning. They also get second opinions from experts. Continuous learning is confirmed because the firm sends their managers to the VC Institute in California to enhance their knowledge. She also states that local VCs lack exposure and don't invest in their own training.

Tee says that third party endorsements also help in deciding to invest in a deal, alluding to the importance of market knowledge of outside experts. When there is a deal, they check out the deal by using their contacts, industry and market players, so they actively learn from outside parties. Chong states that the expertise of their regional offices also helps in deal making.

Triangulated data shows that there is a lot of market knowledge available through the firm's wide spread of regional offices. They also have a very experienced and knowledgeable Technical Advisory Committee consisting of seasoned professionals, PhDs and successful entrepreneurs showing that they value market knowledge and are willing to learn from outside experts.

### iii) H&Q Thailand

There is strong support of market knowledge and continuous learning in the H&Q group. Virapan indicates that the group changes their strategy when necessary. For example pre- Asian crisis they used to make smaller investments but after the crisis they started to make larger investments because there was an opportunity with restructuring deals. They also changed their strategy to take control of their investments. Patan confirms this strategy and also states that they take an active involvement in their investments, which is important for their success. They will also do business development and use their networks to grow the business. They also study their investee company's markets. This is an indication of market knowledge and continuous learning.

The triangulated data shows that they have a wide network of offices and many successful investments and a large portfolio of companies. They also spend time doing

market development and learning about their investee's markets and as they have an active involvement in the management of their investee firms they will also develop more market knowledge. They show continuous learning by actively study the market for their investments and rely on improving their market knowledge to assist their investee firms. With IPOs in multiple countries, and a strong and vastly experienced Advisory Committee, they have a lot of market knowledge as well.

#### iv) MSC Venture Corporation

There is strong support of market knowledge and continuous learning in the firm. Goei believes that the firm is very successful because they have successfully taken their Malaysian investees to the US and China and brought an American firm to Malaysia. They have also listed several companies on MESDAQ the technology exchange. He states that they look at deals differently for example one investee that does TV programming is now doing programming in Chinese for the China market. He also believes that the key part of the ecosystem is the state of mind, the people in the US have a different state of mind and they are not afraid to venture out or to invest money for a future return. All this stems from his market knowledge of multiple countries including the US.

Husni says that their investment strategy is to invest based on the life cycle of the fund. They decide how to capitalise at each timeline. For example the need to pick the industry at different timeline for e.g. Biotech takes too long to give a return whereas electronic devices are easy to ramp up. This shows that they are aware of the cycles of business and of their fund. Alan states that they must be able to pilot the boat when necessary. In Malaysia entrepreneurs are young first-timers. So MSCVC must be able to solve their problems if entrepreneurs cannot. Thus there is a need to have wide market knowledge.

From triangulated data it is difficult to show market knowledge, as it is single country firm. However they have listed 5 firms on MESDAQ and are one of the most successful local firms in Malaysia. However, the interviews indicate that the management team plays an active role in the management of their investee firms. They spend time studying the markets and the ecosystem including their investee firm's market. They also help their investee firms with problem solving, indicating the need for good market

knowledge. These are indications of continuous learning though there is no support of any formal learning and no advisory committees.

#### **b) Cross-Case Pattern Matching**

The within case pattern matching is summarised in Table 5.4 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Market knowledge & continuous learning is indicated in all the different categories	Strong support of market knowledge and continuous learning shown among management	Strong support. Regionally the firm has wide market knowledge and shows continuous learning among management	Strong support. There is good support of market knowledge and continuous learning among management	There is strong support of wide market knowledge & continuous learning. Market knowledge is also obtained via industry expertise & multiple exits.

**Table 5.4: Cross Case Pattern Matching – Successful Firms – Market Knowledge & Continuous Learning**

There is also strong support of market knowledge and continuous learning among these firms. The successful firms obtain market knowledge via industry expertise by having external Advisory Committees. Multiple exits and the success of IPOs and M&A's among these firms also provide more market knowledge. There is also support of continuous learning among the firms and in one case, Walden; managers also attend the VC Institute to improve their skills, lending credence to the continuous learning of the firm.

The cross-case analysis shows that market knowledge and continuous learning is an important element in the success of these firms. The managers believe that it is important and the triangulated data backs this up as well. We can therefore conclude that market knowledge and continuous learning is a necessary element of success in these firms.

#### **5.1.5 Intangible Resources – Independence of the Management Team**

The fifth and final category under this group heading is independence of the management team and we shall now explore this category.



#### a) Within Case Pattern Matching

The within case pattern matching data indicates that independence of the management team is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### i) Barings Communications Equity Asia

There is only moderate support of management team independence in the BCEA group. Yong states in his interview that BCEA runs autonomously. They used to have a common Investment Committee for their global funds but this is no longer the case. The partners make all their own investment decisions and have their own Investment Committee. Chan also says that the management team is decentralised.

Showing management team independence is not easy from triangulated data. As BCEA has a wide regional network of offices with senior and experienced personnel managing the offices, some level of independence is shown. Also there is no more management link with their British office as stated by the partners so independence is fairly well confirmed.

#### ii) BI Walden

There is also only moderate support of management team independence in the Walden group. Chok states that each country manager plays a strategic role by providing a roadmap of investments for the next 3-5 years. Their investment strategy also depends on the expertise of the partners. Partners are fairly independent as they are all successful industry people and some were even successful Entrepreneurs. However, Tee does say that Walden is a bureaucratic organisation with clear hierarchies. However, each country does formulate a local strategy and sees what works and what does not. What works in the US might not work in Asia, so there may be some independence for regional offices. Chong also states that the respective country heads formulate strategy.

While it is again difficult to show support of independence, the fact that there are many regional offices with highly experienced country heads does give some indication of

independence. Also, the fact that the managers indicate that the country heads formulate their own strategy does show some form of independence.

#### iii) H&Q Thailand

There is moderate support of management team independence in the H&Q group. Virapan confirms that the headquarters does not play much of a role in the strategy. The Exco and the Investment Committee make their own decisions. Each local fund has a local Investment Committee and they make the decisions. The strategy is also to have local managers in each country. Patan states that the local management will propose the industry strategy and will identify the different industries to invest in based on each country. They also give each country leeway to decide on the industries and don't place limits on each country. Local offices also identify their own opportunities and dealflow.

The fact that they have multiple regional offices and senior managers to head each office shows some independence for each office. As the country heads also formulate their own strategy lends some weight to independence. Hence there are indications of some management independence in H&Q Thailand.

#### iv) MSC Venture Corporation

There is strong support of management team independence in the firm. There is less mention of independence during the interviews but this can be attributed to the fact that they are a single country fund and only have to report to their investors, there is no further hierarchy. Husni states that the local venture capital structure is different. There is no partnership structure and senior managers earn a salary as employees. Hence there is an employee – employer structure unlike most other VC funds. Alan says that the original CEO didn't want to take the loss of loss making investments even though the management team was recommending that they write off the loss. However when Goei came in he cut off all the loss making companies. In the early days there was a lot of indecision but Goei is very decisive.

The interview data shows that Goei made some hard decisions without recourse to other parties and this shows that there is management independence in the firm. Although triangulated data is unable to verify independence because it is a single country fund, interview data provides the confirmation.



### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.5 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Moderate support. Team is fairly senior with strong multinational team across the region. Unable to fully validate independence of management.	Moderate support. Difficult to prove independence other than high ranks of managers. Interview data indicates evidence of independence.	Moderate support. There is adequate support of management independence	Strong support. This is however self-evident bec it is a single country fund & only reports to its investors, the Government.	There is moderate support of Mgt team independence. Most firm mgt have some independence though complete independence is not easy to verify.

Table 5.5: Cross Case Pattern Matching – Successful Firms – Independence of Management Team

In the successful firms there is moderate support of management team independence. Most firm management have some independence though complete independence is not easy to verify. These firms have the ability to make investment decisions, formulate and execute strategy and contribute to the overall group by sharing their knowledge and expertise. Their independence is validated by the active roles they play in the group as a whole, in regional companies meetings, in formulating long-term strategy and in the sharing of knowledge.

The cross-case analysis shows that independence of the management team is an important element in the success of these firms. The managers believe that it is important and the triangulated data backs this up as well. We can therefore conclude that independence of the management team is a necessary element of success in these firms. One important point to note is that all these firms have been around for more than 10 years with the exception of MSC Venture Corporation, which has been around since 1999. All these firms have also been through the dotcom bust of 2000 and the 9-11 terrorist attacks and have survived and have continued to prosper. Their managements have also remained independent and have been able to get through these difficult events.

### 5.1.6 Dealflow – Identifying and Securing Deals

There are two elements under the major category of 'Dealflow', the first of which is identifying and securing deals. Without deals the firm cannot provide a return to its investors, hence the respondents have stated that it is important to not just identify but also secure deals for the firm. We shall now examine each case in detail.

#### a) Within Case Pattern Matching

The within case pattern matching data indicates that the ability to identify and secure deals is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### i) Barings Communications Equity Asia

There is strong support of the ability to identify and secure deals in the BCEA group. Yong mentioned that it is important that the investment partners have the ability to 'smell out a deal'. By this he means that this is an important role for the partners of the firm. Chan specifies one example of how they identify deals. For example, in Malaysia they have to identify good Bumiputra companies<sup>11</sup> and then fund their IPOs. Both partners identify the need for deals.

In terms of the triangulated data there is clear support that BCEA has the ability to identify and secure deals. The group has many investments throughout the region and has also successfully exited some of the deals through IPOs or acquisitions. There are many deals in their investment space and within their geographic focus. There is strong evidence of deal flow in their regional offices as shown by their portfolio of investments.

#### ii) BI Walden

There is also strong support of the ability to identify and secure deals in the Walden group. Chok states in the interview that it is a requirement for each manager to identify 10 contacts that can bring in dealflow for the firm. Tee says that managers must have the ability to spot good opportunities to take to an exit. In deal origination they have to

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<sup>11</sup> Bumiputra companies are given favourable treatment by the Malaysian government in their affirmative action plan. They are normally given special privileges for contracts and all companies listed on the Kuala Lumpur Stock Exchange must have 30% Bumiputra ownership (Wikipedia, 2005).

interact with all parties, they have to check out the deal, use their contacts, industry and market players. She also states that in early stage deals there is a lot of handholding, introduction to potential customers and even hiring of staff. Chong mentions that the expertise of other offices and partners is used often in deal making. The local office does the same for the overseas offices too. The managers have identified that this is an important area for them.

In terms of the triangulated data there is clear support that Walden has the ability to identify and secure deals. The group has many investments throughout the region and has successfully exited many of the deals regionally and globally including IPOs in Malaysia, Hong Kong and NASDAQ. There are many deals in their investment space and within their geographic focus. There is strong support of deal flow in their regional offices as shown by their portfolio of investments.

#### iii) H&Q Thailand

H&Q also shows strong support of the ability to identify and secure deals. Virapan says that they will invest in any good deals. The regional model is successful because H&Q go for the best deal within the region. They are also considering investing in Thai companies setting up manufacturing plants in China or selling to Chinese consumers. They source deals via their networks. Patan states that among the success factors for his firm is the ability to pick the right industry to invest in. What is important is the right industry, the right company, at the right price. The local offices will identify their opportunities and dealflow and find a company that is growing and has a competitive advantage.

In triangulated data there is strong support that the group as a whole has been successful in identifying and securing deals as there is a large portfolio of investment companies and successful exits. However, the dealflow in Thailand itself seems to be limited as they have only 3 investments although they have successfully exited them on the Stock Exchange of Thailand. According to media reports they are planning on raising additional funds for investment in Thailand. Overall there is strong support that the firm has the ability to identify and secure deals.

#### iv) MSC Venture Corporation

There is strong support that the firm has been successful in identifying and securing deals. Goei makes the point that when they look at a deal; they have to “look beyond the deal”. He is speaking of the ability of the firm’s managers to identify specific aspects of a deal that may not be as obvious to others. The example he gave is that of Cosmos Discovery, one of their investee companies which produces TV programmes. As a producer of TV programmes it is not an exciting prospect, but it also produces TV programmes in Chinese, which enables it reach a much larger market in China. Data from the company shows that Cosmos is now producing programs for over 60 TV stations in Southern China and is planning on entering the pay TV market in China. Husni states that one of the factors for success is “the ability to find the right deal and the right people” – dealflow. Tan also confirms this viewpoint by stating that the firm’s investment strategy depends on a few factors one of which is “good dealflow”.

Triangulated data shows that the firm has a large portfolio and is a successful VC firm, having listed 5 companies on the MESDAQ market. There are a variety of investments from TV programme producers to software and service firms. They have been able to identify and secure deals within their investment space. The firm has also been securing deals on a regular basis in the last 6 years since their formation, showing that what the managers’ state in their interviews is backed up by support of actual deals identified and secured. There is strong support that the firm has been successful in identifying and securing deals in its market.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.6 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Team has shown ability to identify and secure deals regionally with successful exits	Strong support. Firm has shown great propensity to identify & secure deals.	Strong support. Firm has shown great propensity to identify & secure deals though deals in Thailand are more limited	Strong support. The firm has clearly demonstrated its ability to identify and secure deals	There is strong support that the firms have been able to identify & secure deals. Most firms have a large portfolio of investments & many successful exits.

Table 5.6: Cross Case Pattern Matching – Successful Firms – Identifying & Securing Deals

There is strong support that the successful firms have the ability to identify and secure deals. All these firms have a large portfolio of investments and many successful exits. The managers also state the need for the ability to do this and have proven their capabilities through their successful investments. Only H&Q Thailand has shown some limitation in the number of deals although among the deals secured it has been successful in exiting the deals. H&Q on a regional basis however has shown great success in identifying and securing deals as it has a large portfolio of investments and exits.

The cross-case analysis shows that the ability to identify and secure deals is an important element in the success of these firms. The managers believe that it is important and the triangulated data backs this up by showing that the firms have a wide portfolio of companies and many exits as well. We can therefore conclude that identifying and securing deals is a necessary element of success in these firms.

#### **5.1.7 Dealflow – Availability of Deals in the Market**

The second element under the major category of 'Dealflow' is the availability of deals in the market.

##### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that the availability of deals in the market is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below. We shall now examine each case in detail.

##### **i) Barings Communications Equity Asia**

There is strong support of deal availability in their markets. Yong says that one reason why the firm started to look at investing in Asia was because the European market was starting to consolidate and there were fewer opportunities there as the market started to mature. The communications infrastructure also had been built so there were fewer opportunities in that area. However the content industry was starting to grow, for example in online travel in China. The partners have also just set up a new fund for Asia, as there is now a window of opportunity to invest and take the companies to market.



There is a gap in the market. Chan indicates that it is an important ingredient for success not to be a single country fund, so BCEA will do one ASEAN deal for every two China deals. He is indicating the necessity of spreading the investments geographically.

Triangulated data shows that BCEA has multiple investments in multiple countries. They have also successfully exited many of their investments. They have a large portfolio of investments within their investment and geographical focus showing strong support of deal availability in their focus markets.

#### ii) BI Walden

BI Walden also shows strong support of deal availability in their markets. Chok asserts that dealflow is the main problem for VCs and for Walden it is a major problem. If there is no dealflow, then Walden may leave the country. From a global perspective Malaysian deals are too small for Walden. She believes the problem is whether Walden Malaysia can get a big enough regional deal that can compare with China and North Asia. Tee also believes that there is insufficient dealflow in Malaysia. She says that it is better in Singapore, Hong Kong and China. Even if you manage to raise funds but cannot get deals and cannot exit, it defeats the purpose of being a VC. She also believes that Walden needs to get into early stage deals. Chong says that there are no factor considerations, as Walden will go where the deal is. It is clear from this that availability of dealflow is a big consideration for Walden as all the managers agree that dealflow is so important that, as Chok the Country Managers says, the firm will leave the country if there are no deals.

Triangulated data shows that Walden is a successful VC firm. It has multiple investments in multiple countries. They have also successfully exited their investments in many countries including in Malaysia and even listed investments in the US. This wide portfolio of investments shows that there is deal availability within their geographic and investment focus. However, the number of deals in Malaysia is small as they have only 4 deals listed. Perhaps this is an indication that there is inadequate deals in Malaysia hence the statement by the managers that dealflow is a problem in Malaysia. Overall there is strong support that the availability of deals in the market plays an important role in firm success.



### iii) H&Q Thailand

H&Q shows strong support of deal availability in their markets. Virapan states that the dealflow in Thailand for their size of deals is not many so they look for more Management Buy-Out (MBO) deals. MBO deals are regarded as bigger as they are normally related to larger firms in which the existing management buys out the existing shareholders and then manage the company. Patan also confirms that dealflow in Thailand is quite limited. He says that the new H&Q Asia Pacific fund is focused on North Asia, mainly China and also on deals in Korea and Japan. Also the region may be limited for e.g. the Asean market may be small (compared to China).

According to triangulated data, there is justification for their statements because H&Q Thailand has only 3 deals in Thailand. Although they are successful, as they have listed the three firms on the Thai Stock Market, the number of deals is not large. According to the firm's regional data, every other office has more deals than the Thai office. On a regional basis however, the H&Q group has multiple investments in multiple countries showing that there is deal availability within their geographic and investment space. Overall there is strong support of deal availability in their markets for the group, although it is slightly limited in Thailand itself.

### iv) MSC Venture Corporation

There is strong support of deal availability in their markets. Goei believes that the dealflow is strong especially in the US. There are a lot of big deals there thanks to the "word of mouth" network. Tan says that for the firm investments outside Malaysia must have a tie or a link to Malaysia, it must benefit Malaysia. For e.g. they funded a US marketing company to help market one of their Malaysian investee companies Nexus Edge. So there must be a Malaysian angle. From the interviews there appears to be no indication of a shortage of deals for MSC Venture Corporation in their geographic focus unlike Walden where the managers all indicate that dealflow may be a problem.

Triangulated data shows that the firm has a large portfolio of investments within their geographic and investment space. Although it is only a single country fund it has also invested in the US. There is strong support of the availability of deals in market for the firm and from interview data this is a factor that the managers believe is important to their firm.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.7 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Firm has done a lot of deals within their space & geographic focus as well as regionally.	Strong support. Firm has a lot of deals in their space & geographic focus	Strong support. Firm has a lot of deals in their space & geographic focus though deals in Thailand are more limited	Strong support. The firm has many deals in their space & geographic focus showing availability of deals in the market.	All firms show strong support that there is adequate availability of deals in their focus markets. Most firms have many deals in their investment space.

Table 5.7: Cross Case Pattern Matching Successful Firms: Availability of Deals in Market

There is strong support that there is availability of deals in their market as all the firms have large investment portfolios indicating they have been able to find many deals in their focus markets. The successful firms also have a wide and diversified portfolio of investments throughout their geographic focus and among their different regional offices. However, in the interviews with Walden and H&Q Thailand there are indications that deals in Malaysia and Thailand may be less going forward and this may impact on their future success in these markets.

The cross-case analysis shows that the availability of deals in the market is an important element in the success of these firms. The managers believe that it is important and the triangulated data backs this up by showing that the firms have a wide portfolio of investments in their focus markets. A point to note is that it is availability of deals in the market that leads to the success of these firms and not the other way around. For example it could be said that successful firms will attract dealflow but the support in these cases does not show that. Walden and H&Q are very successful and have many listings globally yet both have stated that dealflow is insufficient in their markets. Hence we can conclude that it is dealflow that leads to success and not success that attracts dealflow.

We can therefore conclude that this is a necessary element of success for these firms.

### **5.1.8 Exits - Viability of Exits in the Market**

The third aspect that has been highlighted in the results is “Exits”, which has also been identified by all the managers as essential for the firm’s success. The interview data showed that the managers of the firms believed that the viability of exits in the market is an important aspect of firm success. This section centres on whether the firms are located in markets with an exit opportunity and whether they show support of exits. This combination shows the viability of exits in their markets.

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that this aspect is important for the firm’s success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below. We shall now examine each case in detail.

#### **i) Barings Communications Equity Asia**

There is strong support of exit viability for BCEA. Yong claims that the key decision for them to invest is the availability of an exit. There must be an active capital market for either an IPO or a strategic acquirer available (in a merger and acquisition). Chan corroborates his partner by stating that exits are the key to successful investments so every market where they invest must have an exit strategy.

There is clear corroboration among the partners that there must be a viable exit in their focus market before they make an investment.

The key point of this discussion is whether their investments are in countries with active capital markets especially markets with viable stock exchanges. The triangulated data shows that their portfolio of investments are all located in the Asian markets of Singapore, China, Taiwan, Korea, Japan and Malaysia. All these markets have active and viable stock exchanges proving the point of the partners’ statements that they only invest in markets in which an exit is available. BCEA also has successful exits in multiple countries within their geographic focus. Hence there is strong support of exit viability for BCEA.

#### **ii) BI Walden**

BI Walden also shows strong support of exit viability. Chok says that the availability of an exit mechanism is one of the first considerations for the firm. For example in Malaysia the IPO market is good but Malaysia needs to develop the trade sales market especially for the private equity industry. Tee identifies success with the ability to spot good opportunities to take to an exit, indicating that the exit is an important factor in VC firm success. To Chong, success means meeting the expectations of investors especially the number of companies that get listed. If companies that you work with go for a listing or a trade sale then you are a successful VC. Again the exit is an important factor of success for him.

Centred on the point that the availability of an exit in their investment markets is important for this category, the triangulated data shows that all Walden offices are located in countries with viable stock exchanges. They have offices in Silicon Valley, Malaysia, Singapore, Taiwan, China/Hong Kong and the Philippines. They have also exited many investments in markets throughout the countries in which they invest both IPOs and mergers and acquisitions. Thus there is strong support of exit viability for Walden.

### iii) H&Q Thailand

There is strong support of exit viability for H&Q. Virapan mentions the returns from some of their investment companies that went IPO in Thailand as indicators of successful exits in their Thailand market. Patan also speaks of the average return from those divestments, which is 2.5 times, a figure that although is not high by international standards is good by Thai standards. Although they do not specifically mention the viability of exits in their market, throughout the interview there is a focus on IPOs, acquisitions and return on exits showing that exits are an important proposition for the firm.

The triangulated data shows that the firm has had many successful exits in all their investment markets. They have offices in Silicon Valley, Japan, China, Thailand, Singapore, Korea, Taiwan and the Philippines all countries with viable exchanges. There is strong support that the viability of exits in their focus markets is essential for the firm's success.

#### iv) MSC Venture Corporation

MSC also shows strong support of exit viability. Goei believes that Mesdaq is the jewel in the crown for Malaysia as it is a good exit opportunity for investee firms and there is good liquidity in the market. He verifies this by stating that they have listed a few companies on Mesdaq including RedTone, and Karensoft Technologies. Husni states that for their China investment, the exit may not be in China, so they will exit outside China for e.g. in Singapore or Hong Kong. Tan says that the firm is a successful firm and has already broken even. On a regional perspective, it is probably one of the more successful. At least two of the managers specifically speak of exits as important aspects of their investments. The CEO in particular is very specific about the value of the Mesdaq market to Malaysia.

Although the firm is a single country firm, it does have one China based investment and another American investment. They are however open to listing their investments outside their particular markets especially where there is a viable exchange available like in Singapore or Hong Kong. Most of their investments are however in Malaysia and all prior IPOs have been in Malaysia. Hence there is strong support of the viability of exits in their markets for MSC Venture Corporation.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.8 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. Firm has many exits in their space, geographic focus & several done by the regional offices	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	Strong support. Firm have many exits in their space & geographic focus	There is strong support of the viability of exits in their markets. All firms have successfully exited investments in all markets they invest in.

Table 5.8: Cross Case Pattern Matching – Successful Firms – Viability of Exits

There is strong support of the viability of exits in their markets for the successful firms. The viability of exits in their geographic markets was important, as that was where most of the exits took place. For example H&Q Thailand IPO'd all their investments in Thailand while Walden Malaysia exited their investments in Malaysia and Singapore, the two main markets in which they invest. This shows that the markets in which they invest

have viable capital markets to exit their investments. The geographical spread of the firms in the different Asian markets also coincides with countries and markets with an active stock exchange. However as stated by Chok of Walden, in some markets like Malaysia, the merger and acquisition market is weaker and this does add a constrain to their exits.

The cross-case analysis shows that the viability of exits in their focus markets is an important element in the success of these firms. The managers believe that it is important and the triangulated data backs this up by showing that the firms have successfully exited many of their investments in their focus markets. An important point to note is that the viability of exits is not a measure of success, but that the markets that these firms invest in must have viable exit opportunities otherwise they will not invest in those markets. We can therefore conclude that this is a necessary element of success for these firms.

#### **5.1.9 Networks – Value of Networks**

The fourth and last aspect that has been highlighted in the results is “Networks”, specifically the value of networks, which has been identified by all the managers as necessary to identify deals and ensure the firm's success.

##### **a) Within Case Pattern Matching**

The interview data showed that the managers of the firms used their networks to identify and secure deals and also to do business development for their investees. They believed that networks were an important part of the VCs and the firm's success. We shall now examine each case in detail.

##### **i) Barings Communications Equity Asia**

There is strong support that BCEA has good networks in their investment markets. Yong states that for their firm it is more important for their investment partners to have “on the ground” presence, to know the market and the players. He states that among the partners, their “roots are deep”, indicating that they are fully networked into their markets. Chan says that the firm has good regional contacts within different regions. They also use local partners in each market, e.g. local securities houses. Partners may also be investors or co-investors. There is corroboration between both the partners on



the value of their networks and the fact that the firm has good contacts and networks in their investment markets.

The triangulated data shows that among the managers and partners they have wide work experience in different regions indicating the greater possibility of good networks. They also have a wide portfolio of investments and successful exits in many of their regional markets demonstrating that they are able to invest regularly, another indication that they have possibly good networks. They also have a wide network of offices, which enables them to have a wider network and contacts in the region. There is strong support that BCEA has good networks in their investment markets.

#### ii) BI Walden

Walden also shows strong support of good networks in their investment markets. Chok states that the firm chooses partners with good local contacts. Partners must be able to connect the CEO, Lip-Bu, with all the right people and must have a good network. Each manager must also identify 10 contacts that can bring in dealflow. Tee mentions that demographics in Asia are based on strong individual contacts. The strong Asia – Silicon Valley connection in Walden made Asian companies successful in the USA. Chong points out that the Singapore government has created a better ecosystem and more networks that help their companies. All the managers mention networks and the value that good networks bring to the firm. In fact the firm even selects partners based on their networks, their contacts and the Country Manager even states that each partner must even provide a minimum number of contacts for the CEO in each market. There is a clear indication in the interviews that contacts and networks are a necessary ingredient for the success of the firm.

The triangulated data shows that the firm's partners have wide work experience in different regions and industries indicating the greater possibility of good networks. The Country Manager of the Malaysian office has vast experience in one of the largest Investment Banks in the country and has been involved in almost 100 IPOs on the Malaysian exchange. They also have a wide portfolio of investments and successful exits in many of their regional markets demonstrating that they are able to invest regularly, another indication that they have possibly good networks. They also have a

wide network of offices, which enables them to have a wider network and contacts in the region.

Chok was also the President of the Malaysian Venture Capital Association and the group CEO Lip-Bu is actively involved in many industry, charitable and university organisations in America and in their investment regions, indicating greater possibility of having vast contacts and networks. Hence there is strong support that Walden has good networks in their investment markets.

#### iii) H&Q Thailand

There is strong support that H&Q has good networks in their investment markets. Virapan says that they source deals via their networks and in fact all three of their deals were due to personal networks. Patan also says that they will use their networks to help grow the company. There is corroboration among the managers that networks are valuable to their company, in fact it is a strong statement when the Managing Director says that all of their investments were due to their personal networks.

The triangulated data shows that among the group's managers and partners they have wide work experience in different regions indicating the greater possibility of good networks. They also have a wide portfolio of investments and successful exits in many of their regional markets demonstrating that they are able to invest regularly, another indication that they have possibly good networks. They also have a wide network of offices, which enables them to have a wider network and contacts in the region. The Managing Director of the Thai office was also a Founder and Past President of the Thai Venture Capital Association indicating greater possibility of having better contacts and networks. Therefore there is strong support that the firm has good networks in their investment markets.

#### iv) MSC Venture Corporation

MSC also shows strong support of good networks in their investment markets. Goei states that dealflow is strong for the firm especially in the US because of his networks. There are a lot of big deals thanks to the "word of mouth" network. Husni says that they will make more use of their networks to find out examples of the things that their contacts did. The customs and the networks are all local. Tan states that the firm's

investment strategy depends on a few factors one of which is good networks saying that they must have good networks in their investment field. There is corroboration between the managers that they value their networks and that the firm has good contacts and networks in their investment markets.

The triangulated data shows that among the managers they have wide work experience and the CEO also has wide experience in different regions indicating the greater possibility of good networks. They also have a wide portfolio of investments and successful exits and have also invested outside Malaysia even though they are a single country firm. This demonstrates that they are able to invest regularly, another indication that they have possibly good networks. There is strong support that the firm has good networks in their investment markets.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.9 below to enable ease of cross-case comparisons.

A) BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
Strong support. There are a lot of investments with successful exits & wide work experience indicating good networks	Strong support. Many investments with successful exits and wide work experience showing good networks	Strong support. Many investments with successful exits and group has wide experience showing good networks	Strong support. Many investments with successful exits and wide work experience showing good networks	There is strong support of good networks among the firms. Most managers have vast work experience & have shown the ability to invest in many portfolio firms using their networks.

Table 5.9: Cross Case Pattern Matching – Successful Firms – Networks

There is strong support of good networks among the successful firms. Most managers have vast work experience and have shown the ability to invest in many portfolio firms using their networks. In at least one case (H&Q Thailand) the Managing Director stated that all their investments were made through their personal networks. The ability to successfully invest and exit and their vast work and venture capital experience show that the successful firms have good networks and use them to be successful.

The cross-case analysis shows that good networks are an important element in the success of these firms. The managers believe that it is important and the triangulated

data backs this up by showing that the firms have wide networks and have used these networks to identify and secure deals as well as successfully exit them. We can therefore conclude that this is a necessary element of success for these firms.

#### **5.1.10 Conclusion on Pattern Matching for Successful Firms**

This section on the pattern matching for successful firms provides a complete discussion on a case-by-case basis for each of the successful firms in this dissertation. This case-by-case analysis is an important part of the Grounded Theory and case study methodology. The objective of this analysis is to delve into the details of each case and to 'scope' out the important statements made by the respondents on the reasons for their success and to match this to triangulated data to ensure that these statements are verified by their actual actions. This process of verification is important to ensure that what they say and what they do actually match. Once we have done this, the next step is to make conclusions on their strengths or weaknesses for each category. We conclude for each case by making a statement on whether there is say, strong support of experience in the management team in that category.

The next step was to do cross-case analysis of all the successful cases for each category. Here the initial conclusions for each case were matched with other cases in the successful group and a final conclusion on whether there was corroboration or contradiction was made. Using the experience category as an example, we found in section 5.1.1 that overall all the successful firms had very experienced management teams and this contributed to their success. Again, it is worth noting that this conclusion was not based just on the interview data, that is, not just on what they said, but also on triangulation with other datasets including quantitative data.

The conclusions that are reached for each category will then be used in section 5.3 where the patterns for the successful firms will be matched with the patterns of the failed firms in this study, from which we will be able to determine any corroborations or contradictions between the two sets of firms that can give us an answer to the research question.

We summarise the findings of this section as follows. In the Intangible Resources categories, we have found that all the successful firms have very experienced

management teams with strong expertise and knowledge base in their focus industries and they also share their knowledge extensively with each other. They also have wide market knowledge either within the firms or through the use of external Advisory Committees and there is strong support of continuous learning in the firms. Finally, there is also support of management team independence in all the firms as they have the authority or ability to make decisions on investments and also on the strategies that they pursue and have survived intact through difficult crises like the dotcom bust of 2000 and the 9-11 terrorist attacks in the USA.

In the category of 'Dealflow', in terms of identifying and securing deals all the firms have been able to identify and secure many deals in the market and have a wide portfolio of investee companies. The firms also show that there is availability of deals in their focus market for all the firms. For the category 'Exits', these firms also show that there is viability of exits in all the markets that they invest in as they have exited many of their investments successfully in their markets. Finally, in the 'Networks' category, all the firms show strong support of the value of networks and have good networks in their focus markets, supported by the large number of portfolio companies and successful exits. The next step in this analysis is the pattern matching for the failed firms as follows.

## **5.2 Pattern matching for failed firms**

The objective of this section is to identify the role that each category plays in the case of each failed firm and then to compare the cases of the two failed firms to each other. As stated in section 5.1, the Grounded Theory and case study methodology requires detailed study of each individual case to identify common patterns before these patterns are used to compare to the other cases. The same method used in section 5.1 will again be used here.

### **5.2.1 Intangible Resources- Management Team Experience**

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that management team experience is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that experience is necessary for success. Based on the interviews



this point is used in the within case meta-analysis and triangulated with other data for each of the failed firms as will be seen below. We shall now explore each case in detail.

#### i) Softbank Emerging Markets

The analysis shows that there is only some support of experience in the SBEM management team but this is insufficient to match to their industry focus. The managers of Softbank mention aspects of management team experience in their interviews though not in much detail.

Yoke-Kee Ang, the Regional Associate states that their foreign partners have worked globally and are seasoned professionals. He states that Softbank also has a huge portfolio of investments so it can benchmark and learn from previous successes and failures of their portfolios in other markets like the US and Korea. Also important is the role that Softbank plays in the management of the company. They will influence the company and shorten the path to success. Softbank also has seasoned professionals who work globally and can advise their companies. Karan Ponnudurai, the Investment Manager, highlights the fact that both he and the Managing Director, David Low, had experience in building ecosystems and networks and were able to connect with key people. He mentions their industry expertise compared to other VCs who do not have an industry background. There are strong suggestions in the interviews that Softbank managers have a lot of experience to offer the firm and its investees.

However, the triangulated data offers less information and does not fully verify the claims of experience other than the industry experience of the managers. None of them had any VC experience while both Ponnudurai and Low only had telecommunications experience. Ang is a corporate finance and management consultant with no background in VC or the technology industry. They also did not have any investment experience and there was no other person in the Softbank office that appears in any documents to present any experience or assistance to the Malaysian based firm. Although they were reporting to their headquarters in Silicon Valley, there was no one else who played a management role in the firm. The only other office was opened in Poland in 2001 but closed within 6 months of operations.



A search of the archives for the Softbank Emerging Markets original website through the US archive database on the Wayback Machine<sup>12</sup> brought up the homepage of the website but unlike their main Softbank Inc. website does not provide any information on the management teams at the SBEM entities, hence no other management team member's data was available to verify experience or expertise. The available data therefore shows that there is actually insufficient experience in the firm.

#### ii) Transpac Capital

The analysis here also shows that there is moderate support of experience in the Transpac management team. The Vice President and Country Manager of Transpac Malaysia, Jason Ng, says that in 1997 after the Asian financial crisis the firm shifted focus from VC to build 'platform companies' equating this to Private Equity like investing. However he stated that they don't have the relevant experience and the knowledge for such investments. Transpac people have MNC experience but in entrepreneurial firms it is not the same.

Tien-Kiong Yeo, the Investment Manager states that Transpac had about 30 members of staff in the investment team with a lot of experience including cross-border industrial focus and cross-border evaluation teams. In the US VCs often have entrepreneurial experience but in Asia most VCs are ex-bankers. Transpac however kept changing its focus from a technology focus to low technology manufacturing and then to Internet investments during the dotcom boom. However when the dotcoms went bust they shifted to private equity type investing. However the managers did not have the experience in all these industries. The requirement was to adapt to the market and he felt this was not making use of their managers' experience.

Based on triangulated data, Ng had good VC experience as he was formerly a senior executive at Walden and other investment firms but he didn't have any industry or entrepreneurial experience. Yeo had limited industry experience but no VC experience. Also the firm kept changing focus and finally ended up trying to do private equity investing though on a smaller scale and this did not fit the experience of the management. There isn't even a website to provide data on the firm and all the support

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<sup>12</sup> This is an archive service which archives websites from the mid-1990s and almost every website since then is archived. (<http://www.archive.org/web/web.php>)

was gleaned from news reports. In all documentary evidence the only name that crops up is that of the Founder and CEO of the firm Christopher Leong.

Based in the interview data and on the managers' Biodata there is moderate support of some VC experience in the firm. However due to the changing nature of the firm's investment focus, and their current Private equity focus, the experience of the management team would not fit the strategy of the firm and the conclusion is that there is inadequate experience in the firm, a conclusion supported by the interview data.

#### b) Cross-Case Pattern Matching<sup>13</sup>

The within case pattern matching is summarised in Table 5.10 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. There was insufficient support of management experience. Overall experience was inadequate & only in finance & telco. No VC or investment experience & esp. no Internet experience, their focus area.	Moderate support. Team has VC experience & some industry experience but no other indication of overall experience esp. in their investment space	Only moderate or some experience shown by management team. Some industry experience is shown. Transpac VP has VC experience but little experience in their changing market space. Lower levels of experience in both cases could have impacted on their success.

Table 5.10: Cross Case Pattern Matching – Failed Firms – Management Team Experience

Overall there is only moderate to some support of experience at the two firms but the levels of experience are inadequate for their market and industry focus. There is some industry experience but no venture capital experience with only the Transpac Country Manager having some venture capital experience. Both firms have little experience in their selected market space with Transpac having problems coping with the constant changes in their selected market space which lead to them having inadequate experience in their new market space.

### 5.2.2 Intangible Resources- Expertise and Knowledge Base

#### a) Within Case Pattern Matching

<sup>13</sup> The complete analysis and pattern matching for the failed firms is given in Appendix I2.

The within case pattern matching data indicates that expertise and knowledge base is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that this is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each of the failed firms as will be seen below. We shall now explore each case in detail.

#### i) Softbank Emerging Markets (SBEM)

The analysis shows only some support of expertise and knowledge base in the SBEM management team, which is insufficient for their market and industry focus. Ang states that Softbank has networks, expertise and seasoned professionals who work globally and can advise their companies. He also says that there is a lot of information sharing with experts at their US headquarters, which helps them to benchmark their deals against their existing database of deals as well as their existing portfolio of investments. Ponnudurai states that the difference between Softbank and the competition was the industry expertise and domain knowledge within Softbank. They are industry experts. However he also states that Softbank did not have an investment strategy but based its strategy on discussions with individuals in each Softbank office.

The triangulated data provides little support of expertise at the firm other than the corporate finance expertise of Ang and the telecommunications expertise of the other two managers. There are no other parties who provide any expert advice and the managers themselves are limited only to their industry expertise. They invest in Internet technologies but none of the managers have Internet, entrepreneurial or VC expertise. The lack of any other party offering such expertise is also obvious as there are no other senior managers or partners linked directly to the firm.

The conclusion here is that although the managers state that there is expertise in the firm and it is necessary for success, the data does not support this proposition. There is insufficient expertise among the managers of Softbank.

#### ii) Transpac Capital

The analysis shows some support of expertise and knowledge base in the management team at Transpac, which is inadequate for their investment space. Ng indicates in the interview that Transpac didn't have enough domain expertise because most of the team

were electronics based and the new intakes were telecoms based. After the 1997 Asian crisis they shifted focus to build 'platform companies' like Private Equity but they don't have the knowledge or expertise for such investments. Yeo adds that the team has to change to adapt to the market and the managers were not very happy with this strategy as the firm should not expect professionals to change to adapt to the market as their expertise was not put to use. Changing all the time meant that they did not develop an expertise and whatever expertise they had was wasted.

The triangulated data shows that Ng had venture capital and investment experience while Yeo had limited industry expertise, but because of the continuous change in their investment focus, they did not have enough expertise and knowledge in their focus industries. Yeo also only had expertise in the building materials industry and no expertise in the venture capital sector. Neither did he have technology expertise. They also did not make any investments and hence did not build up any further expertise or knowledge base. None of the other managers in the group showed particular knowledge or expertise either other than Leong who was named as Director in several investments.

It can only be concluded from the triangulated data and from the interview data that there was a lack of expertise and knowledge base at the firm.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.11 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. There is insufficient expertise & knowledge in VC or Internet industry their focus area. Only expertise is in finance & telco	Some support. Inadequate evidence of expertise & knowledge in their investment space	Some support of industry expertise but low VC expertise except for Transpac VP. Knowledge base acknowledged to be very low in one case.

Table 5.11: Cross Case Pattern Matching – Failed Firms – Management Expertise & Knowledge Base

There is only some support of management expertise and knowledge base at both the firms. There is also little venture capital expertise in the firms except for the Transpac Country Manager. Even the Transpac managers acknowledge that their knowledge base is very low. Overall the expertise and knowledge base at the failed firms is inadequate.



### **5.2.3 Intangible Resources- Knowledge Sharing**

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that knowledge sharing is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as will be seen below.

#### **i) Softbank Emerging Markets (SBEM)**

The analysis shows that there is no support of knowledge sharing in the SBEM group. Ang states that there is a lot of sharing of information between their experts at their US headquarters and the firm's managers. This helps them to benchmark their deals with the existing database of deals as well as their existing portfolio of investments. Ponnudurai says that they do not have a fixed strategy and their strategy is based on discussions with individuals in each Softbank office.

A review of the triangulated data shows that there is no support of any knowledge sharing in the firm with their headquarters or with other parties. There seems to be a reporting structure where the team reports to their US office (based on the interviews) but there is no particular management team that meets regularly to share knowledge. In fact none of the documents provides any indication of Softbank partners in Silicon Valley or elsewhere, sharing knowledge with the Asian office. They appear isolated and even in the interviews do not indicate any real sharing or mention any other Softbank managers or partners.

Unlike the other foreign firms they do not mention holding regular meetings to strategise or share knowledge with their global offices. Hence there is no support of knowledge sharing in the firm.

#### **ii) Transpac Capital**

There is no support of knowledge sharing in the Transpac group; in fact the evidence shows that the managers deliberately do not share knowledge due to intense regional rivalries. Ng states that there are quarterly meetings but that they are only useful for

personal networking and not for knowledge sharing because of the rivalry among managers. The individual managers do not work together and are only protecting their own interests not that of the firm or the group. There is also a fortnightly deal meeting where the investment managers must defend deals. He believes that VCs also need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry. Yeo says that the firm is a "one man show" - the Founder President Dr. Christopher Leong. The Exco makes the strategic decisions especially the President ... and the rest of the team has to follow. There was no mechanism to make strategy. They had 30 members in the investment team with a lot of experience, including cross-border industrial focus and cross border evaluation teams but there was no decision-making ability.

The triangulated data shows little support of knowledge sharing. Although they had many regional offices there is no documentary verification of any sharing. Other than Leong, there are no other managers mentioned anywhere and little information on investments, management teams or portfolio successes. This lack of information shows little interest in sharing of knowledge and this lack of sharing is supported by the interview data. As the respondents state there are regular meetings but the company is structured in a competitive manner leading to active withholding of information by regional partners. The interviews indicate that they rarely share information and hence the regional offices do not benefit from any knowledge sharing. There is hence no support of knowledge sharing in the firm.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.12 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
No support. There is no evidence of any knowledge sharing as the only other office in Poland closed within months. No indication of other Softbank partners being active in SBEM either.	Some support. There is inadequate support of knowledge sharing in the group	No support of knowledge sharing. Strong evidence of lack of sharing in both cases, confirmed by interview data.

Table 5.12: Cross Case Pattern Matching – Failed Firms – Knowledge Sharing



There is no support of knowledge sharing among the management teams of both failed firms. In Transpac, interview evidence shows that the management team purposely do not share knowledge because of the competitive structure of each office's position in investing for self-gain. There is strong evidence of lack of sharing in both cases.

#### **5.2.4 Intangible Resources- Market Knowledge and Continuous Learning**

##### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that market knowledge and continuous learning is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as will be seen below.

##### **i) Softbank Emerging Markets (SBEM)**

There is only some support of market knowledge and continuous learning in the firm. Ang makes the point that Softbank has a huge portfolio of investments so it can benchmark and learn from previous successes and failures of their portfolio in other markets. This critical mass of portfolio allows this comparison and learning and is one of the unfair advantages that Softbank has. Ponnudurai states that they have the experience of building ecosystems and networks and were able to connect with key people.

The triangulated data does not provide any further evidence to support their contention that they have a lot of market knowledge or that there is continuous learning. Softbank as a group has made many investments and would have a portfolio that could be used to benchmark hence their contention is possible but other than that there is no evidence of greater knowledge. The managers do not have the benefit of the knowledge of any other specific Softbank partner or any Advisory Committees. There was also no indication of the use of outside experts or continuous learning either. Hence the data does not show support of market knowledge and continuous learning in SBEM.

##### **ii) Transpac Capital**

There is only some support of market knowledge and continuous learning in the Transpac group. Ng states that they were investing like Private Equity but VCs have no expertise in this type of investments. They don't have the knowledge for such investments. To make such investments they must have industry knowledge and domain expertise. He also says that the firm has in-house experts and worked with multinational corporations. Yeo says that they had about 30 members in the investment team with a lot of experience, including cross-border industrial focus and cross border evaluation teams. However the strategy was to adapt to market opportunities. They should not expect professionals to change to adapt to the market, as their expertise was not put to use, whatever expertise they had was wasted.

The triangulated data shows little evidence of adequate market knowledge in the firm. While a greater number of offices should increase market knowledge this is not evident as there is very little documentary evidence. They did have a few IPOs and would have increased their market knowledge based on this success. There is however no data to support a claim of continuous learning.

While there is some evidence of market knowledge based on their wide regional offices, the change of investment style to private equity investing was not within their market knowledge and obtaining the market knowledge was a problem as the strategy kept changing. There was no evidence of the use of outside experts and no evidence of continuous learning. The only conclusion is that there is only some support of adequate market knowledge in the firm but no continuous learning.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.13 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. Only some industry knowledge is relevant. There were no IPOs or exits & no knowledge of their investment space in the Internet industry.	Some support. There is some market knowledge but overall inadequate evidence of market knowledge & continuous learning	Some support shown of adequate market knowledge or continuous learning. Both teams had very little experience of exits & little market knowledge.

Table 5.13: Cross Case Pattern Matching – Failed Firms – Market Knowledge & Continuous Learning

In the failed firms there is no evidence shown of adequate market knowledge or continuous learning. Both teams had very little experience of IPOs and M&As. There was no evidence of external Advisory Committees or use of external professionals to provide additional market knowledge or expertise. There was also no indication of continuous learning in these firms.

#### **5.2.5 Intangible Resources- Independence of the Management Team**

##### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that the independence of the management team is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as will be seen below.

##### **i) Softbank Emerging Markets (SBEM)**

There is no support of management team independence in SBEM. Ang states that SBEM was closed after the 2001 Sept. 11, terrorist attack in New York. The earlier dotcom crash in 2000 also contributed to the decision to close the firm. At time of closure they were ready to offer terms to 8 companies. Ponnudurai says that Softbank, the parent company closed all its operations to focus in Korea, Japan and on broadband in North Asia. However no mention was made about the fact that SBEM was actually a joint venture with the World Bank, whose name did not come up in the interviews.

The triangulated data shows no evidence of management independence. From the interviews and from the fact that closure was made unilaterally by their US headquarters with no input from the management despite them having between 5 to 8 investments almost confirmed, the evidence is that there was no independence of the management team at SBEM.

##### **ii) Transpac Capital**

There is no support of management team independence in Transpac. Ng says that in Transpac much depends on the President liking the deal. It is a very autocratic way of deciding on deals. Even the country heads have no decision-making authority. But the

President was too dictatorial and this caused a lot of infighting within the team. Yeo states that one reason for the failure of the firm is that it is a "one man show". The Executive Committee makes the strategic decisions especially the President and the rest of the team has to follow. There was no particular mechanism to make strategy as this was left to the Exco.

The triangulated data shows that there is no evidence of independence. Even in all regional documentation only Leong's name comes up in all news reports and no other country manager appears. Indicates a possible autocratic system confirming the interview data. In the regional context as well there is no evidence that country managers have any independence.

The conclusion is that there is no independence based on the lack of other data to support independence and the clear indication in interview data that there is no independence. Also the fact that the closure of the firm's regional offices including the Malaysian office was made unilaterally without the input of the managers as indicated by the interviews shows lack of management independence.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.14 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
No support. There is clearly no evidence of management independence. Firms closed by head office & team had no say in the decision.	No support. There isn't enough evidence of management independence. Closure decision made without consultation by HQ.	No support shown. Both teams clearly have no independence at all either in investing or decision-making. Even the decision to close the firms was made by external parties at their HQ with no input from the management.

Table 5.14: Cross Case Pattern Matching – Failed Firms – Independence of Management Team

There is no support of management independence in the failed firms. Both teams clearly have no independence at all either in investing, decision-making or strategising. None of the firms or managers has indicated any of these roles in the interviews, which contrasts with that given by interviews of managers in successful firms. Most significantly, even



the decision to close the firms was made unilaterally by external parties at their HQ with no input from the management.

### **5.2.6 Dealflow – Identifying and Securing Deals**

The first element under the major category of 'Dealflow' is identifying and securing deals.

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that the ability to identify and secure deals is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### **i) Softbank Emerging Markets (SBEM)**

There is some support that the firm has been successful in identifying deals although it was not able to secure any deals. Just because a firm can identify a deal does not mean that it can secure the deal, i.e. invest in the deal. Hence just identifying a deal alone does not fully satisfy this criterion in this category but cognisance is given to the fact that at least they have been able to identify deals which shows some ability in this category.

Ang says that at the time of closure of the firm, they were ready to offer terms to 8 companies (which includes companies in India and outside Malaysia). Ang also says that dealflow at that time (1999 to 2001) was good with many younger companies in Malaysia. Ponnudurai states that in Malaysia they were close to completing 5 investments before SBEM was closed.

The only triangulated data available to confirm these claims is that of two entrepreneurs Mr. Christopher Chan, the CEO of The Media Shoppe (TMS) and Mr. Lau Kin-Wai, the CEO of Viztel Solutions Bhd (Appendix J1 & J2). Both the companies are listed on MESDAQ. These were two of the companies identified by SBEM for investment before they were closed and both CEOs confirm this in interviews. Hence, the claims of the two SBEM managers that they did identify deals before they were closed can be verified. There is no other information available to confirm that SBEM has the ability to identify deals. However, they did not secure any deals prior to closure and there is no assurance

that even among the deals that they have identified they would have secured those deals including the two deals above. In the case of TMS, the CEO did state that the valuation given by SBEM was very low and they probably would not have done the deal anyway.

Based on this there is some evidence of their ability to at least identify deals if not secure them. The other office in Poland closed within months and there is no information available on their ability to identify or secure deals. One point to note is that both the managers state that the firm was closed despite them having deals and that the justification for the closure was the 9-11 terrorist attacks in the US. It is not possible to verify these statements, as triangulated data is not available. However it is pertinent to note that 9-11 affected all other VC firms and not just SBEM and none of the other firms in this dissertation considered closing their offices because of the 9-11 attacks. Furthermore the businesses of the firms that SBEM was investing in were in Asia including the two companies mentioned above, so it is not possible to justify the closure based on just 9-11. This is however difficult to verify.

#### ii) Transpac Capital

There is some support that the firm has been successful in identifying and securing deals. Ng identifies personal success as a VC as the ability to spot good investments and seeking out the best returns from this investment. Coincidentally, Yeo also measures success by the ability to identify investments. He also states that VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry and thereby identify good investments.

Triangulated data shows that while the firm does have some investments in Hong Kong (for e.g. IIN International Ltd) and Taiwan (Eastern Multimedia Company) there is almost no information on more recent investments. Data is only available until December 2000 at which time they had many investments and had since inception listed 56 companies in markets all over Asia and also in the US (NX News, 2004). This shows that in the early days at least, the firm had the ability to identify and secure deals but not in recent years even though according to Ng the firm still did have funds to invest. Overall there is some evidence of the ability to identify and secure deals.



#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.15 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. Team had identified some deals prior to closure but firm closed before any investments made. Regional office also closed without investments. Shows some ability to identify deals though none secured prior to closure	Some support. There are very few recent deals, the last one was in year 2000. Firm closed many offices in Dec 2001. However firm had many deals in the 1990s indicating that it had the ability to identify & secure deals, but has lost that ability or has lost the propensity to invest.	There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dotcom bust. There were no recent deals & in Transpac case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure.

Table 5.15: Cross Case Pattern Matching – Failed Firms – Identifying & Securing Deals

There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dotcom bust. There were no recent deals and in Transpac's case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure but the managers of SBEM did confirm that they had a few deals in hand, showing that they had the ability to identify deals, but none were secured prior to closure.

#### 5.2.7 Dealflow – Availability of Deals in the Market

The second element under the major category of 'Dealflow', is availability of deals in the market.

##### a) Within Case Pattern Matching

The within case pattern matching data indicates that the availability of deals in the market is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

##### i) Softbank Emerging Markets (SBEM)

There is only some support of deal availability in their market. Ang says that one of the most important factors for him is the availability of adequate dealflow and many potential investments. He believes that there must be good demand and supply in the economy

as this ensures that there will be a lot of dealflow. For Ponnudurai one measure of success is the number of deals done. For Softbank this target was 10 deals in 2 years per Investment Manager. Both managers consider that the availability of dealflow is an important factor for the firm to be successful.

Triangulated data does not provide any evidence of adequate dealflow because as mentioned in (a) above, the firm did not do any deals before closure. However from interviews with two entrepreneurs they did confirm that SBEM were considering investing in their firms. This can lead to a conclusion that there is at least some evidence of the availability of deals in the market for SBEM.

#### ii) Transpac Capital

Transpac shows no support of deal availability in their markets. Ng says that in Asia there are very few deals to spot and that the dealflow is very small. He also believes that Investing in Asia is difficult. In Asia top management is expensive but the dealflow is not there. Also Transpac's minimum deal size was US\$ 5 million, which was difficult to invest in Malaysia at that time. This limited the number of deals that could be done. However Yeo contradicts Ng because he says that doing deals in Malaysia is not difficult.

Triangulated data shows that Transpac had many deals in the early days but not in recent times (as mentioned in (a) above). On a regional basis in the early days they did have many deals. Hence there is no evidence of dealflow for Transpac. There are no new deals in the last 5 years and the only Malaysian deal was 10 years ago, while the last regional deal was in year 2000. This is a possible indication of lack of availability of deals in their market or of the inability of the firm to invest.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.16 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. Team had identified some deals prior to closure. Shows availability of deals in their market	No support. There are no new deals in the last 5 years. The only Malaysian deal was 10 years ago & the last regional deal was in year 2000. Possible indication of lack of availability of deals in market or of inability of firm to invest.	Some support. There were no recent deals but Softbank did identify between 5-8 deals before the decision to close while Transpac did have deals in the early years. There is evidence of deal availability but not enough for the firms to show success.

**Table 5.16: Cross Case Pattern Matching – Failed Firms – Availability of Deals**

There is only some support of deal availability. Softbank did identify between 5-8 deals before the decision to close showing that there were deals in their geographic focus. While there were no recent deals for Transpac, they did have deals in the early years, indicating that availability in their markets may not be an issue. There is evidence of deal availability even for these failed firms so their failure cannot be attributed to the lack of dealflow in their markets.

### **5.2.8 Exits– Viability of Exits in the Market**

The third aspect that has been highlighted in the results is “Exits”, which has also been identified by all the managers as essential for the firm’s success. The interview data showed that the managers of the firms believed that the viability of exits in the market is an important aspect of firm success. This section centres on whether the firms are located in markets with an exit opportunity and whether they show evidence of exits. This combination shows the viability of exits in their markets.

#### **a) Within Case Pattern Matching**

The within case pattern matching data indicates that the viability of exits in the market is an important aspect of a firm’s success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### **i) Softbank Emerging Markets (SBEM)**

There is no support of exit viability for SBEM as the firm was closed before it could invest or exit. Ang mentions that although the availability of an exit is important, because SBEM is global, they can list their investments elsewhere (other than in Malaysia) so they were not as concerned. But if an exit were available in each market it would be

better. Ponnudurai speaks of the value of Mesdaq in the National context indicating its importance to investors. While one manager does not specifically mention the value of a viable exit the other manager does state that the availability of an exit in each of their investment markets would be better. However even the other manager does value the importance of a viable exchange to the national interest.

SBEM was set-up in Malaysia but it had the liberty of investing anywhere in the emerging markets of greater South East Asia as stated in its mandate (Business Editors, 2001). As it did not have any investments it is not possible to speculate on the availability of an exit market for its investments. However, as the first office was set up in Malaysia and there is confirmation that there were at least two potential investments in Malaysia, this adds credence to the fact that they were investing in at least one country with a viable exchange, providing viability for an exit. Those two potential investments are now listed on MESDAQ. There is therefore some evidence of viability of exits in the market for SBEM but as they did not actually make any investments the conclusion can only be that there is no support.

#### ii) Transpac Capital

There is moderate support of exit viability for Transpac. Ng states that exits were also a factor for their failure to invest because between 1996 and 2001 the Mesdaq market for growth and technology companies was just formed and was not active. Hence exits were difficult and Transpac did not manage many exits so success was limited. Yeo measures success by the ability to identify investments and then manage to exit profitably. While Ng is cautious about the viability of an exit in Malaysia and states that that is one reason for their lack of investments, it provides recognition that a viable exit is valuable to the firm. Yeo also notes the value of exits to VC managers.

Triangulated data shows that although there were very few exits in Malaysia and the last one was 7 years prior to their closure, there were other exits in other countries where their other offices were located. The offices were located in China, Hong Kong, Indonesia, Malaysia, Singapore, The Philippines, Thailand and Taiwan (NXNews, 2004). There are viable exchanges in each of those countries and the firm has in fact exited investments in all those countries via IPOs or mergers and acquisitions. This shows that there is viability of exits in their focus markets.

There is moderate support of the viability of exits in the market for Transpac as they were successful in the early years of investing. Although recent evidence of successful exits is less this does not affect the finding of moderate support for the viability of exits in their chosen markets.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.17 below to enable ease of cross-case comparisons.

<b>E) SBEM</b>	<b>F) Transpac</b>	<b>Conclusion</b>
Some support. Firm did not have any investments prior to closure. Their office was located in a market with a viable stock exchange, but firm did not have opportunity to invest & exit.	Moderate support. The firm had many exits in their space & geographic focus prior to year 2000.	Moderate support. While SBEM did not have any investments & hence no exits Transpac did in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to show viability.

Table 5.17: Cross Case Pattern Matching – Failed Firms – Exits

There is moderate support that the failed firms managed to exit successfully in their investment markets. SBEM did not have any investments and hence no exits prior to their closure. Transpac, however, did exit successfully in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to show viability. They were however located in geographic areas which did have viable markets as shown by the successful firms.

The conclusion is that there is moderate support of viability of exits in their markets based on their geographic locations where there are viable stock exchanges and also on the fact that Transpac did have many exits in those markets in their early years.

#### 5.2.9 Networks– Value of Networks

The fourth and final aspect that has been highlighted in the results is “Networks”, which has also been identified by all the managers as essential for the firm’s success. The interview data showed that the managers of the firms believed that the value of networks is an important aspect of firm success.



#### a) Within Case Pattern Matching

The within case pattern matching data indicates that the value of networks is an important aspect of a firm's success. This is initially shown by the interview data as the managers indicate that it is necessary for success. Based on the interviews this point is used in the within case meta-analysis and triangulated with other data for each firm as shown below.

#### i) Softbank Emerging Markets (SBEM)

There is only some support that SBEM has good networks in their investment markets. Ang says that the Softbank group has networks globally and can advise their investee companies. They can also match their emerging market investees with others that they have in America or Korea and can create greater synergies and grow the businesses. Ponnudurai states that the managers had the experience of building ecosystems and networks and were able to connect with key people. There is corroboration between both the managers on the value of their networks and the fact that the firm has good contacts and networks.

The triangulated data however shows that among the managers and partners they may have wider work experience in different industries but they have limited investment experience and do not have wide regional experience either indicating that their networks would be more limited. They would however have good networks in the telecommunications industry as two of the managers were from that industry.

SBEM also does not have a single investment although there is evidence that several were identified. While this is indication that they have some networks there isn't sufficient evidence to show that they have good networks. Although the Softbank group is large, there is no indication that there was wide support given by the group to SBEM. They also do not have a wide network of offices as their only other office in Poland was closed within a short time of opening. Hence while there is some support of networks in SBEM this support is inadequate to indicate the strength of their contacts in their investment markets.

#### ii) Transpac Capital

Transpac shows only moderate support of good networks in their investment markets.



Ng says that the spotting of investments, the good deals, come from personal contacts, and from the VCs networks. Yeo states that to be successful VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry. He says that the firm has industry contacts to source deals. The most important lesson - Contacts and networks are important. There is corroboration between both the managers on the value of their networks and good contacts in their investment markets.

The triangulated data however shows that the managers may have work experience in different industries but only the Country Manager has any investment experience while the Investment Manager only has some industry experience. The group as a whole would have had good networks based on their previous success with their investments but in recent times their investments have been far less and almost none since year 2000. This could indicate that their networks are weaker or that their contacts are not as good as before. Although they did have many regional offices there were few investments indicating possibly weak networks so their regional offices do not seem to add much to their networks. Hence while there is moderate support of networks in Transpac this evidence is inadequate to indicate the strength of their current contacts in their investment markets.

#### b) Cross-Case Pattern Matching

The within case pattern matching is summarised in Table 5.18 below to enable ease of cross-case comparisons.

E) SBEM	F) Transpac	Conclusion
Some support. Although there were no successful investments some were identified prior to closure. Team also did work in related telco industry & finance so would have some networks.	Moderate support. There were investments with successful exits in early years & team had wide work experience showing good networks then. But recent years investment has been poor.	Moderate support. Transpac does show evidence of some networks with earlier investments & exits but Softbank had less evidence. It is not easy to show that the firms had good networks prior to closure.

Table 5.18: Cross Case Pattern Matching – Failed Firms – Networks

There is only moderate support for the failed firms. Transpac does show evidence of some networks with earlier investments and exits but Softbank had less evidence. It is

not easy to show that the firms had good networks prior to closure except based on the interviews. Softbank did manage to find a few deals for investment so there is evidence of networks.

Transpac had investments prior to the year 2000 but not in the last 5 years. That showed that they were able to identify and secure deals and shows that they had the networks to do so in the early years. However in the latest 5 years they showed less ability to invest. This lack of investments could be due to other factors such as the inability to invest<sup>14</sup> in the first place and not so much to their networks. There is evidence for this statement because Jason Ng, the former Country Manager of Transpac had gone on to form his own venture capital firm Expedient Equity and has invested in 6 companies between 2003 and 2005 (Appendix K, Case F: Jason Ng Biodata). This shows that Ng has the networks to invest as a venture capitalist but as a firm Transpac did not have the networks.

#### **5.2.10 Conclusion on Pattern Matching for Failed Firms**

This section on the pattern matching for failed firms also provides a complete discussion on a case-by-case basis for each of the failed firms, similar in format to that for successful firms in section 5.1 above. The conclusions that are reached for each category will be used in section 5.3 where the patterns for these failed firms will be matched with the patterns of the successful firms from section 5.1 above, from which we will be able to determine any corroborations or contradictions between the two sets of firms that can give us an answer to the research question.

We summarise the findings of this section as follows. In the Intangible Resources categories, we have found that all the failed firms have less experienced management teams and in one case none of the team had any experience in venture capital at all. In both the cases the management teams also did not have sufficient expertise and knowledge base in their focus industries. In the third category of knowledge sharing there was little evidence of sharing while in one case the regional teams intentionally withheld knowledge due to the competitive structure of the regional firms. Each regional firm was competing to be better than the other; hence they did not want to share information. Both firms also did not have adequate market knowledge within the firm and

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<sup>14</sup> This inability is not due to lack of funds because Ng states that the firm has the funds.

did not use external Advisory Committees. There was no evidence of continuous learning in the firms. Finally, there is no evidence of management team independence in both the firms as they did not have the authority or ability to make decisions on investments and crucially, the firms were unilaterally closed down by their head offices with no input from the teams, showing that they had no independence at all.

In the category of 'Dealflow', in terms of identifying and securing deals both the firms show inadequate ability to do this. Although in the case of SBEM they managed to identify deals they did not close any deal and the firm itself was closed before deals were completed. Just identifying deals alone is not sufficient because they must also show the ability to secure the deals and both firms did not show this. The two firms also show some support that there is availability of deals in their focus market, and this is shown by the fact that they have identified deals. For the category 'Exits', these firms also do not show that there is viability of exits in all the markets that they invest in, as SBEM did not have any exits while Transpac only had exits prior to 2000 but for the last 5 years they did not have any exits. Finally, in the 'Networks' category, both firms only show moderate support of their networks. This is only because there is some evidence that they managed to identify some deals, but without evidence of wider investments the strength of their networks are difficult to establish.

The next step in this analysis is the cross-case pattern matching of the successful and the failed firms as follows.

### **5.3 Cross Case Pattern Matching – Successful vs. Failed Firms**

This is an important aspect of the pattern matching methodology. The objective of this section is to compare the conclusions between the successful and failed firms and establish where the differences lie in both groups. From the differences we can make valuable conclusions on why one group of firms succeeded while the other group failed. The complete matching of the analysis and comparison is given in Appendix I3, extracts of which are given for each category below.

#### **5.3.1 Intangible Resources – Management team experience**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful firms	Failed Firms	Conclusion
There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. They also have experience in their selected investment space.	Only moderate to low experience shown by management team. Some industry experience shown. Transpac VP has VC experience but little experience in their changing market space. Lower levels of experience in both cases could have impacted on their success.	Strong support that experience matters. The successful firms have a clear advantage over the unsuccessful ones due to the experience of their mgt teams in their investment space. This is especially so in having VC & investment experience. Industry experience is also clearly present in successful firms. Both failed firms have less experienced mgt & in one case while they have experience it is not in their investment space.

**Table 5.19: Cross Case Pattern Matching – Successful v Failed Firms – Management Team Experience**

**Key result:** This analysis shows strong support that experience matters.

#### i) Successful Firms

There is strong support that the four successful firms have very experienced management teams. Most have venture capital and investment experience and also vast industry experience. They also have a lot of experience with successful exits. All also have experience in their selected investment space.

#### ii) Failed Firms

In the failed firms there is only moderate to low experience in the management team. There is some industry experience but no venture capital experience with only the Transpac Country Manager having some venture capital experience. Both firms have little experience in their selected market space with Transpac having problems coping with the constant changes in their selected market space which lead to them having inadequate experience in their new market space.

#### iii) Discussion and Conclusion

The evidence shows that management team experience is a significant factor in the difference between success and failure in the cases being studied. The successful firms have a clear advantage over the unsuccessful ones due to the greater experience of their management teams in their investment space. This is especially so in having venture capital and investment experience. Industry experience is also clearly present in successful firms. Both failed firms have less experienced management and even if they



have experience it is not in their investment space. The experience or the lack thereof is very pronounced. In the successful cases the firms have both industry and venture capital experience and are also experienced in their investment space.

### **5.3.2 Intangible Resources - Expertise and Knowledge Base**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful firms	Failed Firms	Conclusion
There is strong support that all the firms have expertise & knowledge that fits their investment space. Most also have vast VC expertise as well as IPO & M&A expertise.	Some evidence of industry expertise but low VC expertise except for Transpac VP. Knowledge base acknowledged to be very low in the Transpac case.	The successful firms have Mgt with wide expertise & knowledge base in their investment space. They also have a lot of VC as well as IPO & M&A expertise & knowledge. The Mgt of Transpac didn't have any expertise in their new investment space, which was closer to private equity while another firm had no VC or IPO expertise. Both failed firms had limited knowledge base.

**Table 5.20: Cross Case Pattern Matching – Successful v Failed Firms – Expertise & Knowledge Base**

**Key result:** This analysis shows strong support that only the successful firms have management teams with wide expertise and knowledge base.

#### **i) Successful Firms**

There is also strong support that all the successful firms have expertise and knowledge that fits their investment space. Most also have vast VC expertise as well as IPO and M&A expertise. Also, due to their past success in their investment space they have built up a strong knowledge base in their teams.

#### **ii) Failed Firms**

While there is some evidence of industry expertise in these firms it is inadequate. There is also little venture capital expertise in the firms except for the Transpac Country Manager. Even the Transpac managers acknowledge that their knowledge base is very low.

#### **iii) Discussion and Conclusion**

The evidence shows that expertise and knowledge base is an important factor in the difference between success and failure in these cases.

The successful firms have management teams with wide expertise and knowledge base in their investment space. They also have a lot of venture capital as well as IPO and M&A expertise and knowledge. The management of Transpac also didn't have any expertise in their new investment space, which was closer to private equity while the SBEM team had no venture capital or IPO expertise. Both failed firms had limited knowledge base for their industry focus.

There is a wide gap in the expertise and knowledge base between the successful and failed firms. This is a significant issue and provides another reason for the success or failure of these firms.

### **5.3.3 Intangible Resources - Knowledge Sharing**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful firms	Failed Firms	Conclusion
Generally there is strong support that all the firms share knowledge on a regular basis. There is diversity in the Mgt teams & they meet regularly to share knowledge & experiences.	No support of knowledge sharing. Strong evidence of lack of sharing in both cases and in Transpac intentional lack of sharing due to regional rivalries.	Knowledge sharing is more prevalent among the successful firms. There is diversity of Mgt & regular meetings to share knowledge. In failed firms there is no real sharing of knowledge & in Transpac even when they do meet, there is intense rivalry among the different offices & sharing is never done.

**Table 5.21: Cross Case Pattern Matching – Successful v Failed Firms – Knowledge Sharing**

**Key result:** This analysis shows strong support that knowledge sharing is more prevalent and extensively utilised by the successful firms compared to the failed firms.

#### **i) Successful Firms**

Generally there is strong evidence that all the successful firms share knowledge on a regular basis. There is diversity in the management teams and they meet regularly to share knowledge and experiences. This sharing of knowledge is deemed important by the firms and among the cases there is strong evidence of active sharing of knowledge between the partners of their different global and regional offices.

#### **ii) Failed Firms**



In the failed firms there is no support of knowledge sharing. In Transpac, interview evidence shows that the management team purposely do not share knowledge because of the competitive structure of each office's position in investing for self-gain. There is strong evidence of lack of sharing in both cases.

### iii) Discussion and Conclusion

The evidence shows that the firms that actively share knowledge are more successful indicating that knowledge sharing is another necessary ingredient for success. As a corollary, actively not sharing knowledge appears to be a reason for failure, at least in one of the two failed cases we have studied.

Knowledge sharing is more prevalent among the successful firms. There is diversity of management and regular meetings to share knowledge. Partners also share knowledge on a regular basis on a regional/global basis. In the failed firms there is no real sharing of knowledge and in Transpac even when they do meet, there is intense rivalry among the different offices and sharing is never done.

### 5.3.4 Intangible Resources - Market Knowledge and Continuous Learning

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful firms	Failed Firms	Conclusion
There is strong support of wide market knowledge & continuous learning. Market knowledge is also obtained via industry expertise & multiple exits as well as the use of Advisory committees and external experts.	No support shown of adequate market knowledge or continuous learning. Both teams had very little experience of exits & little market knowledge. There is no evidence of the use of Advisory committees or external experts.	Successful firms have diverse Mgt teams & wide market knowledge due to their VC & industry expertise, multiple successful exits & Advisory Committees. Failed firms have no experience with exits, little or no VC expertise & have limited industry expertise & in one case their expertise was not relevant to their investment space. Successful firms also make use of Advisory committees and external experts

Table 5.22: Cross Case Pattern Matching – Successful v Failed Firms – Market Knowledge & Continuous Learning

**Key result:** This analysis provides strong support that the successful firms have wider market knowledge and continuous learning compared to the failed firms who show no evidence of this category.

### i) Successful Firms

There is strong evidence of wide market knowledge and continuous learning among the successful firms. The successful firms obtain market knowledge via industry expertise by having external Advisory Committees. Multiple exits and the success of IPOs and M&A's among these firms also provide more market knowledge. There is also evidence of continuous learning among the firms and in one case, Walden; managers also attend the VC Institute to improve their skills, lending credence to the continuous learning of the firm.

### ii) Failed Firms

In the failed firms there is no evidence shown of adequate market knowledge or continuous learning. Both teams had very little experience of IPOs and M&As. There was no evidence of external Advisory Committees or use of external professionals to provide additional market knowledge or expertise. There was also no indication of continuous learning in these firms.

### iii) Discussion and Conclusion

The evidence shows that market knowledge and continuous learning is necessary for success. Firms that show greater evidence of these elements are successful while those with no evidence have failed. Market knowledge from external sources also plays an important role in the successful firms.

The analysis shows that successful firms have diverse management teams and wide market knowledge not only due to their VC and industry expertise but also to their multiple successful exits. They also have external Advisory Committees and actively use external professionals to assist in their investments. Successful firms also show a propensity for continuous learning, which increases their market knowledge.

Failed firms have no experience with exits and also little or no VC expertise and this limits their market knowledge. They also have limited market knowledge because they have little or no IPO and M&A experience. They show no evidence of using external advisory committees or professional expertise. There was also no evidence of continuous learning.

### **5.3.5 Intangible Resources - Independence of Management Team**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful firms	Failed Firms	Conclusion
There is moderate support of Mgt team independence. Most firm mgt have some independence though complete independence is not easy to verify.	No support shown. Both teams clearly have no independence at all either in investing or decision-making. Even the decision to close the firms was made by external parties at their HQ with no input from the management.	While there isn't strong support of Mgt independence, the successful firms have moderate levels of independence while the failed firms had no independence at all. The complete lack of independence & decision making capability & responsibility is clear in the closure decision which was made entirely by HQ without consultation with Mgt.

**Table 5.23: Cross Case Pattern Matching – Successful v Failed Firms – Independence of Management**

**Key result:** This analysis shows moderate support that the successful firms have more management team independence than the failed firms which show no evidence at all of this category.

#### **i) Successful Firms**

In the successful firms there is moderate support of management team independence. Most firm management have some independence though complete independence is not easy to verify. These firms have the ability to make investment decisions, formulate and execute strategy and contribute to the overall group by sharing their knowledge and expertise. Their independence is validated by the active roles they play in the group as a whole, in regional companies meetings, in formulating long-term strategy and in the sharing of knowledge.

#### **ii) Failed Firms**

There is no support of management independence in the failed firms. Both teams clearly have no independence at all either in investing, decision-making or strategising. None of the firms or managers has indicated any of these roles in the interviews, which contrasts with that given by interviews of managers in successful firms. Most significantly, even the decision to close the firms was made unilaterally by external parties at their HQ with no input from the management.

### iii) Discussion and Conclusion

The evidence shows that the independence of the management team is an important factor in the success of these firms. Lack of independence was one factor that led to the failure of the firms in this study.

While there isn't strong evidence of management independence, the successful firms have moderate levels of independence while the failed firms had no independence at all. The complete lack of independence and decision-making capability and responsibility is clear in the closure decision of the failed firms, which was made entirely by HQ without consultation with management.

The successful firms also have independence in making investment decisions. This is not the case with the failed firms. SBEM for example had 5 – 8 deals but did not make any investments because the HQ shut them down. This shows that they had no capacity to invest on their own. In Transpac the Country Manager specifically said that investing was difficult due to the fact that they had to defend their investment proposals at committee meetings but that it was too tough, showing that he had no decision-making capacity.

### 5.3.6 Dealflow – Identifying and Securing Deals

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful Firms	Failed Firms	Conclusion
There is strong support that the firms have been able to identify & secure deals. Most firms have a large portfolio of investments & many successful exits.	There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dotcom bust. There were no recent deals & in Transpac case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure.	The successful firms show a clear ability to identify & secure deals with a wide portfolio of investments & many successful exits. The failed firms do not show the same capability although in one case the team did manage to identify deals but were closed before they could secure the deals. In the other failed firm there were no recent deals, which could mean that they did not have the ability to identify deals or that they incapable of investing due to other reasons.

Table 5.24: Cross Case Pattern Matching – Successful v Failed Firms – Identifying & Securing Deals

**Key result:** This analysis shows strong support that the successful firms have the ability to not just identify but also to secure deals whereas the failed firms only show some evidence of this ability.

#### i) Successful Firms

There is strong support that the successful firms have the ability to identify and secure deals. All these firms have a large portfolio of investments and many successful exits. The managers also state the need for the ability to do this and have proven their capabilities through their successful investments.

#### ii) Failed Firms

There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dotcom bust. There were no recent deals and in Transpac's case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure but the managers of SBEM did confirm that they had a few deals in hand, showing that they had the ability to identify deals.

#### iii) Discussion and Conclusion

The evidence allows us to conclude that the ability to identify and secure deals is another important factor that leads to successful firms. However, even the failed firms do show some ability to identify deals although they show a lower capability to secure the deals.

The successful firms show a clear ability to identify and secure deals with a wide portfolio of investments and many successful exits. The failed firms also show some capability. In SBEM, the team did manage to identify deals but were closed before they could secure the deals. In Transpac there were many earlier deals but no recent deals, which means that they did have the ability to identify deals earlier but that they were incapable of doing the same in recent times due to other reasons.

#### **5.3.7 Dealflow - Availability of Deals in the Market**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:



Successful Firms	Failed Firms	Conclusion
All firms show strong support that there is adequate availability of deals in their focus markets. Most firms have many deals in their investment space.	Some support. There were no recent deals but Softbank did identify between 5-8 deals before the decision to close while Transpac did have deals in the early years. There is evidence of deal availability but not enough for the firms to show success.	Successful firms have a wide range of portfolio investments indicating that there is adequate deal availability in their market. The failed firms did not have any investments indicating they were unable to secure deals although one firm did have a few deals in the pipeline before they were closed down. As these firms invest in the same country as 2 of the successful ones, dealflow availability alone could not have resulted in their failure.

**Table 5.25: Cross Case Pattern Matching – Successful v Failed Firms – Availability of Deals in the Market**

**Key result:** This analysis also shows strong support that for the successful firms there is availability of deals in their focus markets whereas the failed firms only show some evidence of this category.

#### i) Successful Firms

All firms show strong support that there is adequate availability of deals in their focus markets. Most firms have many deals in their investment space. The successful firms also have a wide and diversified portfolio of investments throughout their geographic focus and among their different regional offices.

#### ii) Failed Firms

There is only some support of deal availability. Softbank did identify between 5-8 deals before the decision to close showing that there were deals in their geographic focus. While there were no recent deals for Transpac, they did have deals in the early years, indicating that availability in their markets may not be an issue. There is evidence of deal availability even for these failed firms so their failure cannot be attributed to the lack of dealflow in their markets.

#### iii) Discussion and Conclusion

The evidence enables us to conclude that the successful firms show wide availability of deals in their markets. However, as the successful firms invest in the same country as the failed firms and have been able to invest successfully, dealflow availability alone could not have resulted in the failure of SBEM and Transpac. Hence this is not a valid reason for the difference between success and failure.

Successful firms do have a wide range of portfolio investments indicating that there is adequate deal availability in their market. The failed firms did not have any recent investments indicating they were unable to secure deals although SBEM did have a few deals in the pipeline before they were closed down. Transpac on the other hand did have deals prior to the Dotcom bust. This does show that in the markets that they were operating in, all the firms could show that there was dealflow.

### **5.3.8 Exits – Viability of Exits in the Market**

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful Firms	Failed Firms	Conclusion
There is strong support of the viability of exits in their markets. All firms have successfully exited investments in all markets they invest in.	Moderate support. While SBEM did not have any investments & hence no exits Transpac did in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to show viability.	There is strong support of exit viability in their markets for the successful firms & at least one failed firm. The other failed firm did not have a chance to exit as they were closed before any investments were made.

**Table 5.26: Cross Case Pattern Matching – Successful v Failed Firms – Exits**

**Key result:** This analysis shows strong support of the viability of exits for the successful firms and only moderate support for the failed firms.

#### **i) Successful Firms**

There is strong support of the viability of exits in their markets. The viability of exits in their geographic markets was important, as that was where most of the exits took place. For example H&Q Thailand IPO'd all their investments in Thailand while Walden Malaysia exited their investments in Malaysia and Singapore, the two main markets in which they invest. This shows that the markets in which they invest have viable capital markets to exit their investments.

#### **ii) Failed Firms**

There is moderate support that the failed firms managed to exit successfully in their investment markets. SBEM did not have any investments and hence no exits prior to their closure. Transpac, however, did exit successfully in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to

show viability. They were however located in geographic areas which did have viable markets as shown by the successful firms.

### iii) Discussion and Conclusion

The analysis enables us to conclude that there is strong support that the viability of exits is an important factor for success but does not differentiate between the successful and failed firms and thus cannot contribute to either the success or failure of the cases.

The analysis shows strong support of exit viability in their markets for the successful firms and at least one failed firm (Transpac). The other failed firm (SBEM) did not have a chance to exit as they were closed before any investments were made. The success of many of the case study firms in exiting their investments within their geographic locations serves to confirm that there is viability of exits in the market in which these firms operate.

### 5.3.9 Networks – Value of Networks

The findings for the successful and failed cases have been summarised in Appendix I3 the extract of which is as follows:

Successful Firms	Failed Firms	Conclusion
There is strong support of good networks among the firms. Most managers have vast work experience & have shown the ability to invest in many portfolio firms using their networks.	Moderate support. Transpac does show evidence of some networks with earlier investments & exits but Softbank had less evidence. It is not easy to show that the firms had good networks prior to closure.	The successful firms show that they have good networks & many even secured their deals through their networks. One failed firm did indicate good networks at least in its earlier days but post dotcom bust it showed less evidence of good networks, as it did not have any recent investments. Again this lack of investments could be due to other factors & not weak networks.

Table 5.27: Cross Case Pattern Matching – Successful v Failed Firms – Networks

**Key result:** This analysis shows strong support of the strength of the networks of the successful firms and only moderate support for the failed firms.

#### i) Successful Firms

There is strong support of good networks among the successful firms. Most managers have vast work experience and have shown the ability to invest in many portfolio firms using their networks. In at least one case (H&Q Thailand) the Managing Director stated

that all their investments were made through their personal networks. The ability to successfully invest and exit and their vast work and venture capital experience show that the successful firms have good networks and use them to be successful.

#### ii) Failed Firms

There is only moderate support for the failed firms. Transpac does show evidence of some networks with earlier investments and exits but Softbank had less evidence. It is not easy to show that the firms had good networks prior to closure except based on the interviews. Softbank did manage to find a few deals for investment so there is evidence of networks.

Transpac had investments prior to the year 2000 but not in the last 5 years. That showed that they were able to identify and secure deals and shows that they had the networks to do so in the early years. However in the latest 5 years they showed less ability to invest.

This lack of investments could be due to other factors such as the inability to invest in the first place and not so much to their networks. There is evidence for this statement because Jason Ng, the former Country Manager of Transpac had gone on to form his own venture capital firm Expedient Equity and has invested in 6 companies between 2003 and 2005 (Appendix K, Case F: Jason Ng Biodata). This shows that Ng has the networks to invest as a venture capitalist.

#### Discussion and Conclusion

The analysis enables us to conclude that although networks are an important factor in the success of these firms they do not make the difference between success and failure of the cases as all the firms show some similar ability to network.

The successful firms show that they have good networks and many even secured their deals through their networks. One failed firm did indicate good networks at least in its earlier days but post dotcom bust it showed less evidence of good networks, as it did not have any recent investments. However as seen above this may not just be due to their networks but perhaps due more to their inability to invest and not networks.

#### **5.3.10 Conclusion on Cross-Case Pattern Matching – Successful vs. Failed Firms**

The cross-case pattern matching in this section has allowed us to determine the factors that have a significant effect on the success or failure of the cases in this dissertation. Based on the above we have determined that all of the four categories: the Intangible Resources (management team experience, expertise and knowledge base, knowledge sharing, market knowledge and continuous learning and independence of the management team), Dealflow (identifying and securing deals and availability of deals in market), Exits (viability of exits in market) and Networks (value of networks) are all factors that played a role in the success of the firms in our study.

However, to answer our research question, we need to find the differentiating factors that made the difference between success and failure of the cases in our study. This is done in the next section where the success factors above are matched to the objectives of this dissertation and the differentiators are identified. These differentiators are then used to generate and develop propositions in sections 6 and 7.

#### **5.4 Objective of the Dissertation & Differentiating Factors**

We have concluded that the above four major categories (Resource Based categories, dealflow, exits and networks) are all important for the success of global venture capital investing in the markets we have studied - Malaysia, Singapore and Thailand. However, before we can consider generating propositions from these findings, it is important that the results meet the requirements of our objectives, the research question in this dissertation. We need to generate propositions that will answer the question:

***“Why are some venture capital firms more successful in global venture capital investing than others and how do they ensure this success?”***

While all the above categories have been determined to be important for success, we need to establish why some firms are more successful than others; we need to find the differentiating factors between success and failure. If for example, networks are important to all the firms and both successful and failed firms show the same or similar type of networks or use of networks then this does not provide a reason why one firm is successful while the other failed. This cannot lead to valid propositions for this dissertation. If however, in the successful firms there is strong support of management



team experience but this same support is not found in failed firms, then we have shown a factor that has made a difference between successful and failed firms and these factors can lead us to valid propositions.

The following discussion will compare the results thus far to our objectives and determine which of the factors show differences between successful and failed firms and from that which factors will be used for proposition generation.

#### **5.4.1 Intangible Resources - Management Team Experience**

We will start with the first category in this group: management team experience.

We concluded earlier in section 5.3.1 that management team experience is an important factor in the success of the firms in our study. All the successful firms had managers that were very experienced individuals both in their focus industry and in the venture capital industry. Many of them had vast regional experience and in all cases their global partners also had vast international experience. Even in the case of the local Malaysian firm their CEO had global experience having been a VC in the US and Singapore. The failed firms however showed much less in terms of experience. In SBEM, none of the managers had any venture capital experience whereas in Transpac one manager had venture capital experience but this was found to be inadequate because the firm was moving into private equity investing, an area in which the managers had no experience at all. Thus while the partners and managers of the successful firms had a lot of experience in their investment space, the same could not be said of the managers in the failed firms.

The managers of the successful firms also have a lot of experience with successful exits both in IPOs and M&As. A review of the Biodata of the partners and managers of successful firms indicates that most have had numerous successful exits. In the failed firms none of the managers had any experience with exits. The venture capital industry profits only on successful exits, so this is valuable experience for a Venture Capitalist.

This analysis shows that experience is a significant factor and differentiator between successful and failed firms. We can conclude from this that management team experience is one factor that makes a difference between successful and failed firms in

our study and contributes towards the objectives of the dissertation. This category will therefore be used for generating propositions in section 6.

#### **5.4.2 Intangible Resources – Expertise and Knowledge Base**

In section 5.3.2 we concluded that the management team's expertise and knowledge base was an important factor in the success of the firms in our study. All the successful firms have management teams with wide expertise and knowledge base in venture capital, industry and within their investment space. The failed firms showed far less expertise and knowledge base in venture capital and in their investment space. Among the failed firms, in SBEM, none of the managers had any venture capital expertise whereas in Transpac one manager had venture capital expertise but again this was found to be inadequate because the firm moved into private equity investing, an area in which the managers had no expertise at all. Furthermore, while the partners and managers of the successful firms had a lot of expertise in their investment space, the same could not be said of the managers in the failed firms.

The country teams and their regional counterparts in the successful firms also had wide expertise and knowledge base of their respective geographic space. Their global partners were also actively involved and actively contributed their expertise to the regional offices and brought with them their vast international expertise and knowledge. There was however a lack of knowledge in their geographic space in the failed firms. In SBEM the managers had to rely on their limited geographic knowledge while investing regionally, including in countries where they had no local knowledge. Hence they would have been at a disadvantage to the successful firms because of this limited knowledge base. None of the global partners appeared to contribute their expertise to the failed firms and in Transpac contribution was further limited because of rivalry among their regional offices.

The managers of the successful firms also have a lot of exit expertise having listed or sold many of their investments successfully. A review of the Biodata of the partners and managers of successful firms indicates that most have had numerous successful exits. In the failed firms none of the managers had any exits. Transpac as a firm did have many exits but those were prior to year 2000 and did not involve the country managers as they were done much earlier, before their term of office. The venture capital industry

profits only on successful exits, so managers who have done this before would have gained much expertise and knowledge, which would have been useful for their future investments. This was not evident in the managers of the failed firms.

On a comparative basis the successful firms had far more knowledge within their firms than the failed firms. This analysis shows that there is a significant difference between the successful and failed management teams in terms of expertise and knowledge base. Just like management team experience, there is a real difference between the firms here. We can conclude from this that the expertise and knowledge base of the management team is another factor that makes a difference between successful and failed firms in our study.

#### **5.4.3 Intangible Resources – Knowledge Sharing**

Another important factor from section 5.3.3 was knowledge sharing. This research shows that knowledge sharing is far more prevalent and deemed more important among the successful firms. There is diversity of management and regular meetings to share knowledge. Partners also share knowledge regularly on a regional and global basis. The successful firms have regular management meetings to formulate strategy, share experiences and fund performances. Whenever there are changes in the environment like the Asian Financial Crisis, these managers also meet regularly to review their firm's strategies and to manage risks. Management staff from other regional offices also help with portfolio companies especially in business development. This shows that there is very active and regular knowledge sharing in the successful firms.

This contrasts with the failed firms where even when there are meetings, inter-office rivalry means that no sharing takes place. Even in formulating strategy, in Transpac there was no process or sharing as the President alone formulated strategy. The President decides the strategy and the rest of the team has to follow the decision. There was a distinct lack of knowledge sharing at Transpac. In SBEM there was no evidence of knowledge sharing as no Softbank partner or senior manager was actively involved with the firm, providing no evidence of sharing globally. In SBEM strategy formulation was done at the headquarters level during the formation of the firm and no other evidence was found of knowledge sharing.

The analysis shows that the firms that actively share knowledge are more successful. As a corollary, actively not sharing knowledge appears to be a major factor in failure, at least in one of the two cases we have studied. Based on this evidence, we can conclude that knowledge sharing among the management team is another factor that makes a difference between successful and failed firms in our study. Active and regular knowledge sharing is therefore a necessary ingredient for success.

#### **5.4.4 Intangible Resources – Market Knowledge and Continuous Learning**

A fourth category that we concluded in section 5.3.4 as important for successful firms was market knowledge and continuous learning. Successful firms have diverse management teams and wide market knowledge not only due to their venture capital and industry expertise but also to their multiple successful exits. They also make extensive use of external professionals and special Advisory Committees to provide additional market knowledge, which the managers of the firms may lack. Successful firms also show a propensity for continuous learning, which increases their market knowledge.

In the failed firms the lack of investments and successful exits means that there is inadequate market knowledge gained by the managers. There is also no support of continuous learning in the failed firms. They also don't have any Advisory Committees and none of the managers mention the use of external professionals either, making it more obvious that there is less reliance on external market knowledge.

Based on the evidence in this research, we can conclude that market knowledge and continuous learning is another factor that makes a difference between successful and failed firms in our study. Enhancing their market knowledge and emphasis on continuous learning are necessary ingredients for success.

#### **5.4.5 Intangible Resources – Independence of the Management Team**

The final category in the Intangible Resources group that we concluded as important in section 5.3.5 for successful firms was independence of the management team. The management teams of the successful firms have significantly more independence than the failed firms. The successful firms show independence through their contribution to



strategy formulation and firm management. They also decide on their own industry focus and investment strategies and contribute their ideas actively to the group.

The failed firms however appear to have no independence at all. The best example of this was that each of the failed firms was shut down unilaterally by their headquarters with no input by the country managers. In Transpac the autocratic leadership style of the Founder President meant that the managers did not have much independence either. The analysis shows that the firms that have independent management teams are more successful indicating that independence is another necessary ingredient for success. Based on this we can conclude that independence of the management team is another factor that makes a difference between successful and failed firms in our study.

#### **5.4.6 Dealflow**

In sections 5.3.6 and 5.3.7 we considered two areas under the major category of dealflow: the ability to identify and secure deals and the availability of deals in the market. We shall consider both of these categories here.

The successful firms have all been able to identify and secure deals as seen in their large number of portfolio companies and many successful exits. Even the failed firms did show some ability to identify deals, as Transpac had many deals prior to 2000 showing that even they did have the ability to identify deals even though that ability was not as evident in recent years. However the fact that they had deals to defend at management meetings showed the ability to identify deals. Even SBEM had several deals identified prior to closure. Hence, while there are some differences between successful and failed firms in their ability to identify and secure deals, these differences were not major and were not the primary factor for one's successes and the other's failure.

The availability of deals in the market is also not a major issue. Three of the successful firms were in the same markets as the failed firms – Malaysia and Singapore. Since they managed to secure deals in these markets, it is confirmation that deals are available in those markets. The failed firms also managed to identify some deals confirming deal availability in those markets. Hence availability of deals did not make the difference between successful and failed firms either.



Based on this, we can conclude that dealflow, while an important factor for success, is not the reason why one firm is successful and the other a failure. The difference between a successful and failed firm is not dealflow and hence this factor does not satisfy our objective of determining why some foreign venture capital firms are more successful than others. This is not a differentiating factor and hence will not be used for formulating propositions.

#### **5.4.7 Exits – Viability of Exits in the Market**

In section 5.3.8 we concluded that the viability of exits is an important factor for success. Based on the research, the geographical focus of the firms has been in markets with viable stock exchanges. Even the failed firms were focused on the same markets. The successful firms have all had many successful exits in their markets and even Transpac had many exits prior to 2000. Only SBEM did not have any exits although at least two of the firms that they identified for investment were ultimately listed showing that there was viability of exits in their market.

The analysis shows that there is strong support of exit viability in all the markets in which our case study firms were located and where they were investing. Hence this is an important factor for success. However, as all our firms were in the same markets, this factor alone cannot be the difference that sets apart the successful from the failed firms. If all are investing in the same geographical area, they will all benefit from the same factor and this factor cannot assist one firm to be successful while causing another to fail.

We can conclude therefore that viability of exits in the market, while an important factor for success, is again not the reason why one firm is successful and the other a failure. Hence this factor also cannot satisfy our objective of determining why some foreign venture capital firms are more successful than others. This is not a differentiating factor and hence will not be used for formulating propositions.

#### **5.4.8 Networks – Value of Networks**

We have concluded in section 5.3.9 that the successful firms have good networks and many even secured their deals through their personal networks. However, the failed firms also showed some evidence of having networks although we did conclude that

they were not able to show that their networks were as good as those of the successful firms. However, Ng of Transpac has shown that since leaving Transpac he has managed to secure six investments thus showing that he has fairly good networks and the ability to use his networks to secure deals. The success of those investments is a different question but it does validate his networks in this area. Even SBEM did show several deals prior to closure indicating that they too had networks that worked.

While we can conclude that networks are an important factor in success, again we cannot say that such networks make the difference between successful and failed firms. Hence this factor also cannot satisfy our objective of determining why some foreign venture capital firms are more successful than others. This is not a differentiating factor either and hence will not be used for formulating propositions.

## **5.5 Summary and Conclusion – Differentiating Factors**

The above discussion shows that among the four categories explored, only the categories grouped under the Intangible Resources show a significant difference between successful and failed firms. These categories are the key differentiators between successful and failed firms. Dealflow, exits and networks, while being important categories for successful investing in emerging markets did not show any differences for both types of firms. So even though they were important, they affected all firms in similar ways and could not account for one firm being successful while the other ended up a failure. The only categories that could account for this was the resource based categories. There is strong support that the firm's resources and how those resources were managed and structured made the difference between the successful and failed firms.

***This means that the Resource Based categories are the most important categories contributing to the objective of this thesis of determining why some firms are more successful than others in global venture capital investing in the three emerging markets of South East Asia.***

The next step of the thesis is to generate propositions around this discovery.

## 6. Generating Propositions

As discussed in the methodology in section 3 above, based on our Framework and the methodology proposals of Eisenhardt (1989) and Yin (1994), there are three steps to generating propositions:

- Shaping propositions
- Matching with enfolding literature and,
- Reaching closure (ensuring theoretical saturation)

This is shown in the following Figure 6.1 (extracted from Figure 4.1).

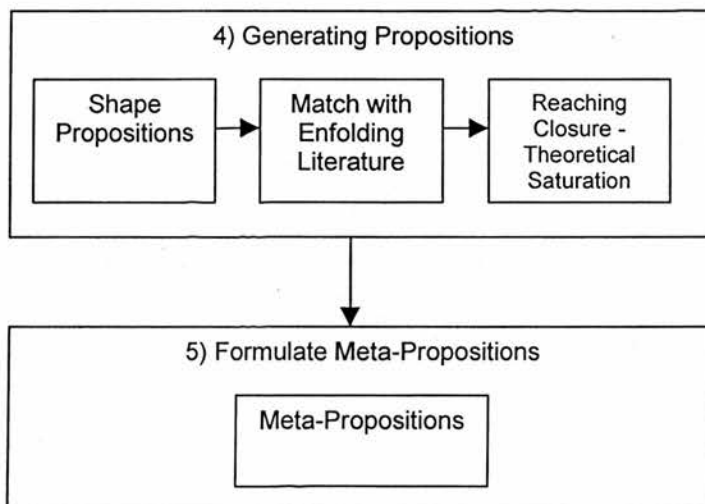


Figure 6.1: Formulating Propositions

This section of the dissertation will look at Generating Propositions and then section 7 will continue with Developing Meta-Propositions based on the finding that the Intangible Resources categories have made the only significant difference between success and failure of the global venture capital firms. We will begin with the shaping of propositions.

### 6.1 Shaping Propositions

According to Eisenhardt (1989: 541-542) shaping propositions is a two-step process:

- Firstly sharpening of constructs through constant comparison between data and constructs so that accumulating evidence from diverse sources converge on a single well-defined construct and,
- Secondly by verifying that the emergent relationships between constructs fit with the evidence in each case.

It needs to be clarified here that Eisenhardt (1989) was describing the process of inducting theory using case studies but her process did NOT describe the use of Grounded Theory. In our case, we have pre-empted these two steps by using the Grounded Theory methodology, which already uses constant comparison between data and constructs from diverse sources of evidence. In doing so, we have already converged onto well-defined constructs i.e. Intangible Resources, dealflow, exits and networks. This simply means that the use of the Grounded Theory methodology has enabled us to fulfil this first step in shaping propositions.

The second step in shaping propositions is verifying that the emergent relationships between constructs fit with the evidence in each case. According to Eisenhardt (1989), each proposition is examined for each case, not for the aggregate of cases. Quoting Yin (1984) the underlying logic here is replication, i.e. the logic of treating a series of cases as a series of experiments with each case serving to confirm or disconfirm the propositions. Hence, the more cases that fit the proposition the better is the confirmation of the proposition. If there aren't enough cases that confirm the proposition or if there are a mix of confirmations and contradictions, then the proposition is not proven and has to be discarded.

Again in this dissertation the use of the Grounded Theory methodology and the constant comparison approach as well as the within case pattern matching and cross-case pattern matching means that the emergent relationships were discovered from the evidence in each case and across the cases, thus fulfilling this requirement as well. Hence the methodology employed in this dissertation has fulfilled the two-step process for shaping propositions and we can therefore do away with the requirement to once again match the findings to the cases.

As the requirement for shaping propositions has been met with the use of the Grounded Theory methodology, we can now restate the findings in section 5 above as initial propositions as follows:

Proposition 1:

The experience of the management team of the global venture capital firm is a relevant and important factor in the success of the firm

Proposition 2:

The expertise and knowledge base of the management team of the global venture capital firm is a relevant and important factor in the success of the firm

Proposition 3:

The sharing of knowledge within the management team of the global venture capital firm is a relevant and important factor in the success of the firm

Proposition 4:

That market knowledge and continuous learning within the global venture capital firm is a relevant and important factor in its success

Proposition 5:

That the independence of the management team in the global venture capital firm is a relevant and important factor in its success

The next step in the process of generating propositions is to match the propositions with the enfolding literature and find support for these propositions in the literature.

## **6.2 Match with Enfolding Literature**

The objective of this section is to link the findings of this study with the wider literature in other areas or contexts. This matching with enfolding literature will result in propositions with stronger internal validity, wider generalisability and a higher conceptual level as well as strengthening the confidence of the findings (Lindgreen et al., 2000). As Eisenhardt (1989) states, "An essential feature of theory building is comparison of the emergent concepts or propositions with the extant literature". In comparing with the extant



literature it is important to ask “ what is this similar to, what does it contradict and why”. Asking these questions and comparing with existing literature enables the researcher to establish the validity of the results of the study and strengthens the confidence that the findings are valid and generalisable (Pare, 2002).

In this section we will review several areas of the literature: global venture capital, the general venture capital literature, entrepreneurship and international management literature and finally literature on management and organisations. This comparison of the literature in many different areas will enhance the robustness of the findings.

### **6.2.1 The experience of the management team**

#### **a) Global Venture Capital Literature**

There is a lot of support on the importance of experience in the management team of global venture capital firms. Based on the venture capital investment experience of the International Finance Corporation of the World Bank, Barger et al. (1996) found that the quality of the fund managers is the most important factor in the fund's performance. The main problem faced by the IFC was finding experienced, high quality venture capital fund managers to manage their funds and this is mainly from the emerging markets perspective including South East Asia. In similar vein, Baygan & Freudenberg (2000) also found that in making decisions to invest in venture capital funds, investors typically care more about the experience, reputation and performance of the fund more than other aspects. This indicates that from the fund investors' perspective, when they want to invest in the global venture capital firm itself, they look for experienced venture capital managers.

This is also recognised as important in the study by Pruthi et al. (2003) who found that successful foreign venture capital firms in India tend to have a significant percentage of Indian executives with some experience in their foreign parent's domestic market. Cornelius (2005) lends credence to the importance of experience in global venture capital firms when he states that venture capital experience is an important element in ensuring that firms both invest successfully and manage risk well. These authors recognise the importance of experience and the findings lend support to the fact that

experience is an important element of the global venture capital manager including from the Asian perspective.

#### b) General Venture Capital Literature

There is a lot of support on the need for experience in this part of the literature. Smart et al. (2000) found that venture capitalists believed that experience was critical to succeeding as a venture capital firm manager. In fact experience was more important than all other aspects of the managers skills including education and financial skills. Bygrave & Timmons (1992) considered the relationship between the experience level of a venture capital firm and the performance of its funds and found that venture capital firms with more experience outperform those with less. They also found that the investment community recognises experience as the majority of new funds in 1988 (64%) and 1990 (56%) went to firms with one or more senior partners who had at least 10 years experience. Only 6% of capital raised went to funds in which the senior partner had less than 3 years experience. Furthermore, the more experienced funds were able to raise much larger amounts of money. This is evident in the fact that both Walden and BCEA have managed to raise follow-on funds. Just in Malaysia alone Walden has raised 3 funds, while the managers of BCEA have just raised a new fund named Crest Capital.

Bygrave & Timmons (1992) also show that investors can expect higher returns from funds managed by top firms rather than funds managed by newer, less-experienced firms. This is confirmed by Arthurs & Busenitz (2005) who found that venture capitalists experience and reputation were positively related to 1-year stock price returns. This confirms the finding that experience is a very important criterion for not just individual success but also firm success. Gompers & Lerner (2001) also recognise the importance of experienced venture capitalists when they found that many venture funds do not accept additional capital investments because they are limited by the number of experienced venture capitalists in the firm. They also found that one reason for syndication is to add experienced venture capitalists on investees' board of directors.

Schertler (2002) found that experienced venture capitalists that have financed a multitude of high-technology start-ups in the past have more experience than venture capitalists that have financed only some start-up enterprises. There is clear acknowledgement that experience is also related to the number of deals made, hence in

our study the firms with multiple deals are more experienced and tend to perform better than inexperienced venture capitalists. Schertler (2002) also found that the low level of venture capitalists' experience in the early stage of the venture capital market could cause extraordinarily high failure rates, in this case in their investee companies. This can then impact on the venture capitalists' reputation and their ability to raise further funds from investors. In our study the experienced firms have all been highly successful in making their investee companies flourish despite operating in emerging venture capital markets.

Next, in exploring the venture capitalists' role in their investee companies, Fried & Hisrich (1995) found that both the venture capitalist and the managers of their investee companies state that the most significant input of the venture capitalist is their general business knowledge and experience. Arthurs & Busenitz (2005) also found that venture capitalists experience and reputation are positively and significantly related to a new venture's dynamic capabilities. They assist the investee firm in maximising their resources and adapting their business and technologies to the changing business environment. In our analysis we found that the more experienced firms had managed to overcome many crises that have affected the region like the Asian Financial Crisis and 9-11 and have continued to assist their investees to be successful. However, in the case of SBEM one reason given for the closure of their firm was the 9-11 crisis, which seems to indicate that they were unable to manage change, indicating that their lack of experience could have been one reason for this.

Research by Shephard et al. (2003) shows that while increasing experience is associated with improvements in reliability and performance, there is evidence that highly experienced venture capitalists have streamlined their decision process to the point where it is highly automatic and driven by intuition and heuristic processing. This results in decisions that may be susceptible to various forms of bias and errors. They found that the optimal level of experience for venture capitalists is 14 years after which their performance begins to decline. In our research Lip-Bu Tan of Walden, Dr. Ta-Lin Hsu of H&Q and even Peter Chan of BCEA all have more than 14 years experience but their firms continue to do well. More research will be needed to prove that the hypothesis of Shephard et al. (2003) is correct, as the three venture capitalists in this study are not representative enough.

Many other studies also express the importance of experience; the value of past experience as a human factor in venture investment (Sweeting & Wong, 1997); the lack of experience of Singapore venture capitalists in monitoring their investments and executing IPOs (Wang & Sim, 2001); how their experience assists entrepreneurs in improving their decision making by providing a more accurate picture of the environment and their competitive situation (Arthurs & Busenitz, 2005) and that most general partners in the US have a decade or more of experience (Gompers, 1998).

The venture capital literature abounds with research on the value of experience to venture capitalists generally. All the above researches show that experience is a valuable and necessary aspect of firm success. The only research that indicates otherwise is Shephard et al. (2003) who found that venture capitalists with more than 14 years experience show a decline in performance. Based on this dissertation study this does not seem to be the case. Our proposition that experience is an important element in success is extensively supported within the general venture capital literature.

#### c) Entrepreneurship and International Management Literature

The entrepreneurship and international management literature also shows that experience is an important resource for the success of firms. Shane & Venkataraman (2000) state that in the new ventures field of study it is important for researchers to focus on managers' special capabilities and experiences when it comes to opportunity recognition and exploitation. This follows on from work developed by McDougall et al. (1994) and Oviatt & McDougall (1997) who found that new ventures internationalise because their internationally experienced and globally networked managers have unique knowledge and competencies that make entering foreign markets attractive. They found that managers' experiences and competencies are critical to the decision to internationalise.

In studying the survival of new ventures Mudambi (2000) found that the multinational firm's level of experience significantly enhances the probability of its survival. In an earlier study Mudambi (1998) also found that multinational experience increases the probability of investment occurring in the first place. This could have significant value especially for a new venture capital firm like SBEM, which is similar to a new

entrepreneurial venture that Mudambi (2000) studied. The lack of experience of the SBEM managers did not assist in enhancing their probability of survival, supporting Mudambi's (2000) finding.

Experience has also been found to be important in other studies of multinationals and internationalisation. McEnrue (1988) found that managerial experience is a key factor in superior performance, Sambharya (1996) identified that experience in international settings is a key factor in multinational activity while Smith, et al. (1996) found that it was important in the success of multinational ventures. Like the global venture capital literature, entrepreneurship and international management literature also shows that experience is an important resource for the success of firms.

#### d) Management and Organisational Literature

There are many aspects of the management and organisational literature that support the findings of this research. Firstly, Barney (1995) defines the human resources of the firm as "... all the *experience*, knowledge, judgement, risk taking propensity and wisdom of individuals associated with the firm" (1995: 50). According to this definition, the experience and the wisdom that is embedded in the management team are an important resource of the firm.

Secondly, Galbreath (2005) divided resources into two categories, tangible and intangible resources of which it is the intangible resource that interests us here. He further divided intangible resources into assets and skills. An asset is a resource that the firm "has" while a skill is something that it "does". Based on this analysis, the experience and expertise of the management team is an asset while the use and sharing of knowledge and firm learning are skills. Galbreath (2005) goes on to say that the capabilities within the firm, the experience of the management team and its knowledge base are arguably the 'pre-eminent' sources of firm success. Teece et al. (1997) also argued that capabilities are the highest order and most important of the firm's resources. They state that capabilities would reside within the experience of the firm's management team.

Coyne et al (1997) said that core competency is a combination of complementary skills and knowledge bases embedded in a group or team that results in the ability to execute



one or more critical processes to a world class standard. The team's skills and knowledge bases would be embedded in their experience as successful venture capitalists, thus experience is a part of core competency. Within the dynamic capabilities view, one aspect of the definition of 'capabilities' is the skills, resources and functional competences of the management team (Teece et al. (1997), aspects that would be embedded within the experience of the managers. Thus the management and organisational literature also supports the finding that experience is an important resource for success.

#### Experience of the Management Team - Summary & Proposition

The analysis of the literature shows strong support for the notion that experience is a very important element of firm success. Thus management team experience within the four successful firms BCEA, Walden, H&Q and MSC Venture Corporation all played an important role in their success. The failed firms had far less experience in their team with almost all of them not even having venture capital experience except for Ng of Transpac. Even the experience that they had in industry was not sufficiently relevant for the failed firms in terms of their investment focus.

The successful firms had management teams that had venture capital experience as well as relevant industry experience. They also had the benefit of age, having been involved in venture capital for many years – Lip-Bu Tan (Walden) and Ta-Lin Hsu (H&Q) for almost 2 decades, Peter Chan (BCEA) 16 years and Esmond Goei (MSC) almost 10 years. In contrast only Ng had about 15 years experience (in investing but not in industry) but because of his lack of decision-making ability within the firm, this experience was not utilised.

In terms of industry experience the successful firms could all show high levels of experience but both SBEM and Transpac had lower levels of experience. Ng of Transpac even had no technology industry experience as he only worked in the investment industry and Smart et al. (2000) state that accounting and corporate finance knowledge are less important for venture capital success.

There is therefore support in the literature including in the global venture capital literature which has provided some Asian perspectives which enables us to conclude the following:

- i) Venture capital experience is a necessary prerequisite for firm success
- ii) Industry experience (based on the firm's focus) is also necessary for firm success.
- iii) The lack of experience in both venture capital and within the firm's industry focus can lead to the failure of the firm

While we cannot conclude that lack of experience will ensure firm failure, such lack has contributed to some extent to the failure of the firms in our study. Hence our first supported proposition is as follows:

***P1: A higher level of relevant venture capital and industry experience within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.***

#### **6.2.2 The expertise and knowledge base of the management team**

##### **a) Global Venture Capital Literature**

There is a lot of support in the global venture capital literature on the need for specialised skills and knowledge within venture capital firms. Firstly, in their study of venture capital activity in the Organisation for Economic Co-operation and Development, Baygan & Freudenberg (2000) state that the disparities of venture capital activity across countries stems from among others, the availability of sufficient numbers of venture capital specialists who can provide the value added that is required in the industry. In an Indian study Pruthi et al. (2003) discovered that there are different levels of expertise between foreign and local venture capitalists. The local Indian venture capitalists tend to have closer involvement and offer more operational input and expertise while the foreign venture capitalists offer mostly strategic and growth expertise. This shows that there are differences in the levels of expertise between domestic and foreign venture capitalists and recognises the need for expertise in venture capitalists. This is where foreign partners in firms like Walden and H&Q play a big role by providing the additional

expertise, which their domestic partners or country managers may lack. This was not found in the failed firms in our study.

Zalan (2004) also highlighted several highly specialised skills for venture capitalists (e.g. finance and valuation, due diligence, restructuring, strategic planning, etc.) and states that their knowledge base comprises a complex and highly specialised bundle of resources. She questions (but does not answer) how international firms are able to leverage knowledge internationally even though their competitive advantage may be highly localised. For example this would apply to Walden and how they are able to leverage their US knowledge in the very different Asian scenario. It is an area that requires further research but Zalan's research recognises the value of expertise.

Additionally, Barger et al (1996) found that the quality of fund managers, their capabilities and skills played a major role in the success of venture investing. Other authors cite the need for managerial sophistication (Bruton et al, 1999), management skills (Sagari & Guidotti, 1992), venture capital experience and skills (Sapienza et al, 1996) and the need for specialists to evaluate and manage investment portfolios (Baygan & Freudenberg, 2000).

This shows strong support on the need for specialised skills and knowledge within venture capital firms. It is this specialised skill set that leads to the success of the global firms and it is also where the foreign partners of the firms with specialised skills play a major role in assisting the regional offices of the group.

#### b) General Venture Capital Literature

There is a lot of support in the general venture capital literature for the expertise and knowledge base of venture capitalists. "All venture capitalists are not created equal", state Elango et al. (1995: 171). They found that there are major differences in the ability of venture capital firms to add value after the investment is made especially based on the venture capitalists' business knowledge.

In 1992, Bygrave & Timmons recognised the value of expertise and knowledge base when they acknowledged that venture capital is an information-intensive business where venture capitalists become experts by specialising in niches, not by being generalists.

They believed that through specialisation firms develop the expertise that makes them valuable members of the information network. They recognised that the depth of knowledge of the venture capitalist in several industries is instrumental in testing the realities of a business plan, its goals and assumptions. They also state that the know-how that an experienced venture capitalist can provide is not available anywhere else.

Further, their propositions are supported by Jungwirth & Moog (2004), who define two types of venture capitalists according to the knowledge that they own - specialists who own industry-specific knowledge and generalists who lack such knowledge. Generalists own general knowledge concerning the process of founding and financing a new enterprise and act as the intermediary between outside investors and portfolio enterprises. They don't own deeper insights into a particular industry and succeeding in such industries would incur prohibitive knowledge transfer and agency costs. Specialists on the other hand besides owning founding and financing skills also have knowledge concerning special industries, processes and products such as biotechnology. Their specialisation lowers knowledge transfer and costs. In our study firms like BCEA, Walden and H&Q would be regarded as specialists while the others would be regarded as generalists. This is one reason why Transpac had problems, as they were more akin to generalists trying to invest as specialists and found such investing a difficult process as attested by the managers.

Additionally, in studying what venture capitalists really do, Dotzler (2001) found that a broad range of skills is required to perform the many tasks of a venture capitalist. Many of these skills are honed by making investments, working with portfolio companies and by interacting with experienced investors. Gompers & Lerner (2001) also state that partners' education, previous employment or years of investment experience allows venture capital firms to acquire 'a deep understanding' of a particular set of industries. This specialised knowledge enables the firm to gauge an opportunity's promise and supports the due diligence and screening process.

Expertise also covers many aspects of skills found in venture capitalists including technical knowledge, operational experience, the ability to strike a smart deal and an eye for skilled portfolio-firm managers (Gompers & Lerner, 2001). They found that most European and Asian venture capitalists with investment banking or management



consulting backgrounds have yet to develop these unique skills. This ties in with our finding that Ang, the Regional Associate in SBEM who has only investment banking and consulting experience probably has not developed these skills sufficiently to be a skilful venture capitalist. Some venture capital firms also depend on syndication to obtain additional knowledge for themselves and their investee firms, an acknowledgement that knowledge is a very important commodity for venture capital firms (Bygrave et al., 1999).

Venture capitalists also tend to do better in more focused or specialised industry ventures instead of high industry diversity as it is more difficult to develop specialised industry knowledge and expertise and to expend effort in closer interaction with their ventures if venture capitalists are more diversified (Gupta & Sapienza, 1992). The successful firms in our research are more industry focused (e.g. Walden in semiconductors, software and electronics and BCEA in media and telecoms) whereas Transpac didn't really have any particular focus. The firms' expertise and knowledge base is deemed important in Gupta & Sapienza's research.

Arthurs & Busenitz (2005) found that venture capitalists with specialties in specific industries combine a superior knowledge base with industry specific ties that allow for the development and deployment of dynamic capabilities and provide insight into the needed internal resource base changes. Also those venture capitalists with more IPO experience have a base of knowledge to better understand the influencers of their investee's products in their markets. This is where the firms like BCEA, Walden and H&Q excel because they have so many IPOs that they have these additional skills, which are missing in SBEM and Transpac.

Additionally in terms of specific skills, several have been highlighted. Fried & Hisrich (1995) highlighted the moral support that venture capitalists provide their portfolio firms; Hellman & Puri (2002) show that venture capitalists also act as coach or mentors to their investees; Sapienza et.al. (1994) state that interpersonal skills are even more important than their operational skills, Ueda (1992) found that finance and valuation skills in this field are distinct and different and are often bundled with scientific and technical skills and Sweeting & Wong (1997) found that even building mutual investor – investees trust is a requisite skill for the venture capitalist.



This long list of specialised skills confirms that venture capitalists are a unique group of people for whom these skills play a big role in their ability to invest and exit successfully. Thus there is a lot of support in the general venture capital literature for the expertise and knowledge base of venture capitalists.

#### c) Entrepreneurship and International Management Literature

The entrepreneurship and international management literature supports the view that expertise and knowledge base play a significant role in successful internationalisation. Firstly, in studying entrepreneurship, Watson et. al. (2003) found that skills, knowledge and abilities are important for the growth of the entrepreneurial firm. Similarly, the accretion of knowledge and resources over time leads to increased competence, which is an important facet of entrepreneurial success (Erikson, 2002). Thus younger venture capitalists who have not accumulated knowledge over time may have less competence and may have less ability to succeed like the SBEM managers.

Secondly, in researching the internationalisation of young firms, Sapienza et. al (2003) found that the survival and growth of these firms depend on the knowledge intensity of the firm. Knowledge intensity in their research relates to the extent to which the firm's inputs, transformation processes and outputs are dependent on brainpower rather than traditional physical factors of production. Autio et al. (2000) and Zahra et al. (2000) also support the notion that knowledge plays an important part in new venture internationalisation.

Furthermore, in the field of multinational corporation internationalisation Kogut & Zander (1993) state "...the primary advantage that a firm brings to foreign markets is its possession of superior knowledge" (1993: 627) and that "firms compete on the basis of the superiority of their information and know-how..." (1993: 640). Similarly, Yli-Renko et.al (2000) state "...the very knowledge-intensity of the firm's core resources may play an important enabling role on the internationalisation of firms" (2001:20). It is evident from this that the entrepreneurship and international management literature strongly supports the view that expertise and knowledge base play a significant role in successful internationalisation.

#### d) Management and Organisational Literature

Literature in this field also provides support on the importance of expertise and knowledge base in the success of firms. Firstly, Galbreath's (2005) categorisation of resources into assets and skills includes the expertise and knowledge base of the firm as an asset, i.e. something that the firm 'has'. Grant (1996) believed that the success of any firm is *solely* dependent upon the knowledge and know-how (expertise) of its employees, offering a strong opinion on what is required for firm success.

Secondly, other authors also offer support for Grant's opinion. These include findings that that firm performance is *critically* linked to the skills, expertise and know-how of managers (Castanias & Helfat, 1991), that know-how generates *more durable advantages* than any other resources of the firm because it is largely complex, specialised and tacit (McEvily & Chakravathy, 2002) and that capabilities are the *highest order* and *most important* of a firm's resources because of their high levels of causal ambiguity and strong barriers to duplication (Teece et al., 1997). Additionally, Teece (1998) also states that knowledge has emerged as the key driver of competitive advantage because the rapid expansion of goods and factor markets has left "intangible assets as the main basis of competitive differentiation in many sectors".

In core competence theory, core competence is defined as a combination of complementary skills and knowledge bases embedded in a group or team (Coyne et al., 1997). Bartlett and Ghoshal (1993) view this knowledge and expertise as a scarcer resource than capital. Prahalad & Hamel (1990) state that top executives will be judged on their ability to identify, cultivate and exploit the core competencies that make (firm) growth possible, hence expertise and knowledge base are a key component for firm growth and success. They also distinguish between individual competencies or capabilities and core competencies. It is the collective organisational and managerial competencies that really matter, hence while individual expertise is important, for the firm to be truly successful it is the entire expertise and knowledge base within the whole firm that matters to success. Hence even if individually some managers may have expertise, if this expertise is not utilised collectively within the firm, it cannot lead to core competency. Thus in Transpac, Ng may be competent but because the firm is run autocratically and there is no collective use of the capabilities, the firm will not be successful.

In the Dynamic Capabilities view the term 'capabilities' emphasises the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external organisational skills, resources and functional competences to match the requirements of a changing environment (Teece et al., 1997). One reason for the closure of SBEM was the 9-11 terrorist attacks which they believed changed the environment for investments, but this is a change that affected other firms and the others managed the changes and continued to be successful. Hence the lack of skills and competencies may have been the real problem for the failed firms and not merely the changes in the investing environment.

Managerial competence also depends on the mutual and intertwined knowledge and capabilities of the entire management team (Knudsen & Madsen, 2002). The same authors also state that the creation and coordination of new knowledge within exporting firms is a crucial part of internationalisation and is an important determinant of export performance. There is strong support in the literature here on the importance of expertise and knowledge base in the success of firms.

#### Expertise and knowledge base of the management team - Summary & Proposition

The analysis of the literature shows strong support for the view that the expertise and knowledge base of the firm is a very important element of its success. Thus the expertise and knowledge base within the four successful firms BCEA, Walden, H&Q and MSC Venture Corporation all played an important role in their success. The failed firms had far less expertise and knowledge in their selected focus industries.

For example SBEM wanted to invest in the Internet industry but none of the managers had any expertise in this industry. Transpac was investing in industries in which none of their managers had any domain knowledge. For example they were looking at technology businesses but Ng, the Country Manager, did not have much domain knowledge of this industry while Yeo, the Investment Manager, only had building materials industry knowledge, something that is vastly different from technology. Walden for example was investing in software and had several software experts on the senior management team.

The successful firms also had management teams that had venture capital expertise while the failed firms had limited expertise with only Ng of Transpac having some expertise. In terms of industry expertise and relevant knowledge base the successful firms could all show high levels of expertise and knowledge but both SBEM and Transpac could not. Even in managing change with issues like the 9-11 terrorist attacks the successful firms have the skills and knowledge base to manage these risks and have continued to prosper unlike the failed firms, which could not, especially SBEM which cited this as one reason for their closure.

Hence our second proposition is as follows:

***P2: A higher level of venture capital and industry expertise and knowledge base within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.***

### **6.2.3 Knowledge Sharing**

#### **a) Global Venture Capital Literature**

There are no particular studies in the global venture capital literature that contribute to this aspect of knowledge sharing.

#### **b) General Venture Capital Literature**

There is support for the view that sharing is important for venture capital firms. Gompers & Lerner (2001) state that as venture capital firms grow, it is important for them to invest in formal modes of knowledge sharing as this leads to the efficient use of their partners' time and energy. In our study the successful cases all have formal modes of sharing including regular management and strategic meetings for the formulation of strategy and to share ideas and knowledge. The failed firms did not do this and even when they did like Transpac there was no sharing due to regional rivalries. Bygrave & Timmons (1992) even point out that one reason for the formation of syndicates is to share knowledge.

Additionally, their experience in prior investments, proposals that they may have analysed and investments that they have made gives venture capitalists knowledge that is useful to others, hence the reason why venture capitalists always talk to each other

(Fried & Hisrich, 1994). This is one reason why the venture capitalists in our study feel that knowledge sharing is necessary among the different partners in the group, but is something that is not obvious in the failed firms. Thus literature in this area supports our proposition.

### c) Entrepreneurship and International Management Literature

There is a lot of support in the entrepreneurship and international management literature for knowledge sharing as an important part of firm success. In studying technological networks and internationalisation of new ventures, Zahra et al. (2003) found that technological sharing within their networks can positively influence sales growth for newly internationalising ventures. Sharing in this sense includes both social sharing as well as other types of information disseminated within a network. This has some similarities to sharing within the networks of the venture capitalists, within their firms as well as within the group and also among their networks.

Kogut & Zander (2002) studied the importance of the sharing and transfer of the knowledge of individuals and groups within an organisation. They argue that the knowledge that is held by individuals is also expressed in the way in which members cooperate in a social community such as an organisation, group or networks. They state that firms create new knowledge by recombining their current capabilities and by building on the social relationships that exist in a firm. The cumulative knowledge of the firm provides options for the firm to expand in new or uncertain markets.

One obvious point to note here is that knowledge sharing includes social relationships and Ng of Transpac made this point when he stated that their meetings were only useful for personal networking although the main point of the meeting, to share knowledge, was not adhered to in their firm. Hence in our study the firms that have managed to do this using regular meetings and the networking between partners and managers tend to be successful whereas those that do not like Transpac tend not to be able to leverage and build on the existing knowledge. Hence the social relationships within the firm are also important for knowledge sharing in firms. Additionally, in their research into the effects of human capital and interpersonal processes on venture teams (entrepreneurial ventures) Watson et al. (2003) found that sharing information is an important part of the



interpersonal process. Where there was a higher level of interpersonal process effectiveness, there was a corresponding level of firm growth.

Finally, Inkpen & Dinur (1998) examined business alliances and the processes used by the alliance partners to share knowledge and identified four key processes of sharing - technology sharing, alliance-parent interaction, personnel transfers, and strategic integration. This study showed different processes of sharing knowledge that are effective in alliances which can also be used by venture capitalists to share knowledge within their group of companies. Our study shows some processes are applicable especially alliance – parent interaction, in this case between the parent and regional venture capital firms, technology sharing between the partners and strategic integration where the managers meet and formulate plans and strategies for investing. There is however, no evidence in our study of personnel transfers.

Thus there is a lot of support in the entrepreneurship and international management literature for knowledge sharing as an important part of firm success.

#### d) Management and Organisational Literature

There is plenty of support in the literature that sharing is necessary for firm success. Firstly, in the core competency literature, Prahalad & Hamel (1990) define core competence as the organisation of work and delivery of value and the communication, involvement and a deep commitment to working across organisational boundaries, involving many levels of people and all functions. This is one of the clearest endorsements of the need for knowledge sharing within a firm.

Additionally, core competency requires firms to actively share knowledge among all levels of the firm's staff and not just the management team. Sharing of knowledge is the essence of core competence, as Prahalad & Hamel (1990) believe that core competence does not diminish with use and are enhanced by application and sharing. They view key employees and top managers as "competence carriers" and contend that they can build and share their competencies for the benefit of their firm by being regularly brought together from across the corporation to trade notes and ideas. All the successful firms in our study actively get together, meet and share ideas, knowledge and competencies confirming Prahalad & Hamel's belief on how competencies are

enhanced. This view is supported by Scarborough (1998) who states that the core competencies approach is about the *interaction of people*, skills and technologies that drives firm performance.

In their theory of Dynamic Capabilities, Teece et al. (1997) emphasise the dynamic nature of firms. This refers to the capacity to renew competences so as to achieve congruence with the changing business environment. It requires innovative responses especially when time-to-market and timing are critical, when rate of technological change is rapid, and the nature of future competition and markets difficult to determine. The term 'capabilities' emphasises "the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external organisational skills, resources and functional competences to match the requirements of a changing environment" (1997: 515). It is proposed here that it is not possible to be dynamic and to meet the requirements of dynamic capabilities if firms do not have a mechanism to share the required knowledge and skills, hence sharing would be a prerequisite for this view.

Furthermore, this proposition is supported by Knudsen & Madsen (2002: 492) who state that managerial competence depends on the mutual and intertwined knowledge, capabilities and viewpoints of the entire management team. To 'intertwine' the knowledge of the entire management team will require sharing among them. Thus the management and organisational literature supports the result that sharing is necessary for firm success.

#### Knowledge sharing - Summary & Proposition

The analysis of the literature shows a lot of support for the view that knowledge sharing is an important element of firm success. All the successful firms in our study actively and purposefully meet and share knowledge, opinions, ideas and deals within their management teams.

The failed firms showed less propensity to share, for example in Transpac although there were quarterly meetings the management teams refrain from sharing due to the competitive nature within the organisation and the autocratic style of management. This lack of sharing meant that competences were not developed and firm knowledge was

not utilised to the maximum. SBEM on the other had showed no evidence of sharing between the domestic operations and their other offices.

Hence our third proposition is as follows:

***P3: A higher level of knowledge sharing within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.***

#### **6.2.4 Market knowledge and continuous learning**

There are two interlinked aspects to this category: market knowledge and continuous learning. Market knowledge is different from the firm's or the managers' knowledge. It is the knowledge that comes from outside the firm, knowledge that managers may not already have and seek to obtain from external sources. This can be obtained from outside professionals, special Advisory Boards or Committees, networks or obtained from external learning both formal and informal. Additionally market knowledge is also knowledge that they gain from specific experience like listing experience from having performed many exits, knowledge gained from their networks and connections and knowledge gained from continuous learning.

Formal learning includes attending special classes, seminars or like the managers from Walden, the VC Institute in Silicon Valley. Informal learning are all other forms of learning and can include discussions with other venture capitalists, outside professionals and other sources. Thus this category is a combined category that reviews not just market knowledge but also how this is obtained via continuous learning.

##### **a) Global Venture Capital Literature**

There is a lot of support in the global venture capital literature on the need for market knowledge and continuous learning within global venture capital firms. Firstly, Heel & Kehoe (2005) determined that the most important aspect in determining success in private equity investing was to seek out expertise before committing themselves to a deal. They found that in 83 percent of the best deals, the initial step was to secure privileged knowledge, which included insights from the board, management or a trusted external source. This can be related back to our study where the successful firms make extensive use of outside professional advice and expertise, thereby increasing their

knowledge of the market and the investment. The same cannot be said of SBEM or Transpac as neither of the firms have Special Advisory Committees and do not specifically state the use of external professional sources to obtain expertise.

Secondly, Lockett et al. (2002) found that US venture capital firms understand the value of local market knowledge. Thus, they use the inpatriation strategy where the national of an Asian country is trained in the US and then taken back to her domestic market to work in their Asian office. This allows the firm to use her local market knowledge especially in understanding the sources of information venture capital firms can trust in developing markets. All the cases in our study use local managers leading to the conclusion that this is one aspect that they understand is necessary and have adopted. However, only Walden specifically mentions training at the head office.

In terms of continuous learning, the training and education of venture capitalists needs to be considered when globalising, both for existing managers and new managers who will be hired in their new foreign offices (Bahn et al, 2002, Bruton et al, 1999). In countries where there is specialised training for managers, it may be possible to hire competent staff but when this is not available then extra effort may be required to train staff in the intricacies of venture capital fund management.

Additionally, Bruton et al. (2002a) show that when globalising, it is better for foreign (mainly Western) venture capital firms to use a phased approach by first opening an office in Singapore and then slowly expand into the rest of Asia. This allows them to learn about the region while being located in a country that has stable institutions and laws. Learning can also be speeded up through partnerships with local firms. Many foreign firms can avoid costly lessons by going through this learning process.

Another form of learning and adapting is through syndication, especially cross-border syndication where venture capital firms learn from their partners who operate in those domestic markets. One of the main objectives of syndication is to obtain and share information and networks with other partners and hence to learn about markets and businesses in territories outside their normal scope of operations (Bygrave & Timmons, 1992).



The global venture capital literature shows that successful firms need market knowledge and should adopt continuous learning as part of their strategy for success. This research shows that this is indeed the case as the successful firms in our study actively pursue market knowledge and use continuous learning processes within their organisations. The failed firms however show little evidence of actively seeking external market knowledge or of a process of continuous learning within their firms.

#### b) General Venture Capital Literature

This literature supports the view that venture capitalists recognise the need for market knowledge in ensuring the success of their firms. While there is less support on continuous learning in venture capital firms, there is evidence in the literature that venture capitalists need to learn to improve their knowledge and expertise.

Firstly, Gompers & Lerner (2001) state that there is recognition in the venture capital literature for the value of market knowledge using external experts because such experts provide critical reviews of potential new investments. Venture capitalists also need to be well informed and if necessary they need to obtain this information both from their investee companies and also from outside sources, thus acknowledging the requirement for knowledge acquisition using external experts (Bygrave et al., 1999).

Secondly, besides just using outside experts, Gompers & Lerner (2001) believe that a more formal structure of enlisting outside professionals also assists the firm to better leverage their partners' time and resources. They term these professionals "venture partners", specialists who provide expert assistance in specialised fields like marketing, IT systems, strategy, etc., areas which may be outside the field of expertise of the general partners.

Additionally, venture capital syndication, the co-investment of several venture capital firms in a particular deal is also commonly done to obtain additional knowledge from many different experts (Bygrave et al., 1999). Bringing in expertise from other venture capital firms creates synergy for the investee and allows the investee as well as the venture capital firms to build up a depth of expertise. Venture capital firms also provide industry knowledge, external contacts and strategic and managerial advice to their



investees confirming that other than expertise other forms of market knowledge are also important to venture capitalists (Gupta & Sapienza, 1992).

Fried & Hisrich (1994) provide examples of different sources of market knowledge. In their paper they found that early stage investors have formal affiliations with technology experts including consulting firms well known for technology assessment. Another firm in their study also used "technology partners", consultants who are formally affiliated with the firm and draw a retainer but do not participate in profits or make investment decisions. Other early stage investors also do this on an informal or ad hoc basis. There are similarities here with the successful firms in our study who have formal Advisory Committees or Technology Advisors. The use of outside experts is a common occurrence among venture capital firms. It is clear from the above research that market knowledge is an important aspect of venture capital firms.

Gompers & Lerner (2001: 127) state that most venture capitalists don't learn their trade through formal education but that "they develop their knowledge and skill through a process of apprenticeship" alluding to the learning aspect of venture capitalists. Fried & Hisrich (1994) also found that venture capitalists benefit from the learning curve when information produced for one proposal is useful for subsequent proposals, thus reducing the information gathering costs for many venture capitalists that specialise by industry.

Schertler (2002) also discussed the role of learning in the provision of public equity schemes where inexperienced venture capitalists are aided in gaining technology specific experience and thereby supporting the development of a powerful venture capital industry. Learning is thus essential for venture capitalists.

The general venture capital literature shows that successful firms acknowledge the need for market knowledge. Although the literature does not specifically state that firms must adopt learning processes, there is evidence in the literature that venture capitalists need to learn to improve their knowledge and expertise.

#### c) Entrepreneurship and International Management Literature

The literature here does not cover this aspect in much detail. However, in a study on the internationalisation of young firms, Sapienza et al. (2003) found that market knowledge

and market commitment influence allocation decisions of newly internationalising firms. The success of these firms is dependent on the management's competencies and market knowledge. Additionally, Oviatt & McDougall (1994) also emphasise the importance of learning in the process of early internationalisation by new venture firms. Firms increase their knowledge through a learning process as they internationalise. Thus there is some support for the continuous learning aspect in this literature.

#### d) Management and Organisational Literature

There is a lot of support in the literature on management and organisations that market knowledge and continuous learning are both important aspects for firm success. Firstly, in his study on the management and organisations, Rumelt (1984) stated that the firm's competitive position is defined by a bundle of unique resources and relationships and that the task of general management is to adjust and renew these resources and relationships as time, competition and change erode their value. It is precisely because of this potential to erode the value of the firm's resources that market knowledge and continuous learning is necessary for firms.

Secondly, Teece (1998) states that knowledge has emerged as the key driver of competitive advantage because the rapid expansion of goods and factor markets has left "intangible assets as the main basis of competitive differentiation in many sectors". This acknowledgement of the expansion of goods and factor markets recognises the fact that markets change and together with that change market knowledge also changes, thus requiring the firm to keep abreast of changing market knowledge.

Additionally, knowledge and expertise is viewed as a scarcer resource than capital by Bartlett & Ghoshal (1993). They believe that in a highly competitive, technologically driven environment (such as that in which our case studies operate) this is a scarce resource that can constrain the growth and strategic success of firms. Hence market knowledge, or knowledge that is external to the firm but important for its success has support in the management and organisations literature.

Next, there are several views on the learning aspects of the organization. Firstly, one of the aspects determined to be important to their theory of core competency is the collective learning in the organisation (Prahalad & Hamel, 1990). They believe that firms

must have the ability to identify, cultivate and exploit the competencies that make firm growth possible and one way of doing this is through organisational learning. Core competencies have several definitions but ultimately relate to three issues which have been identified by Prahalad & Hamel (1990): there must be collective learning in the organisation, this learning must be organised and delivered or implemented within the firm by creating competitive advantages and both the collective learning and implementation must involve everyone in the organisation at all levels.

Secondly, Prahalad & Hamel (1990) also view key employees and top managers as "competence carriers" and contend that they can build and share their competencies for the benefit of their firm by being regularly brought together from across the corporation to trade notes and ideas. Another way in which managers learn about market knowledge is by travelling regularly and talking frequently to customers and their peers. They can also discover new market opportunities for their firm (Prahalad & Hamel, 1990).

Learning has to be continuous and not on a one-off basis because Prahalad & Hamel (1990) contend that core competencies are built through a process of continuous improvement and enhancement that may span a decade or longer. Hence the need for continuous learning in the firm. Additionally, Flood & Olian (1995) lend further support for this view as they found that human resources have the potential for skill renewal and avoidance of obsolescence through training and education. So even though knowledge may become obsolete, the process of continuous training and education enables human resources to continue to learn new skills and obtain new knowledge even in an ever-changing world.

Furthermore, the above two views can be expressed by considering the observation of Kogut & Zander (1993) when they state that firms compete on the basis of the superiority of their information and know-how, and their abilities to develop new knowledge by 'experiential learning'. Here the authors acknowledge that superior information and know-how is important but that learning can develop such knowledge. Hence it is important for the firms in our study to obtain market knowledge and to do so by having the propensity to learn on a continuous basis.

Additional support for this view can be found in the concept of dynamic capabilities. Teece et al. (1997) state that the term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment or when the rate of technological change is rapid, and the nature of future competition and markets difficult to determine. They state that the practice of dynamic capabilities involves three factors one of which is 'processes', which are the managerial and organisational processes or how things are done in the firm, its routines or patterns of current practice and learning. Kylaheiko et al. (2002) stated that successful routines could effectively be replicated within an organization through learning activities. Thus this capacity to renew competences is through the process of organisational learning.

The term 'capabilities' emphasises the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external organisational skills, resources and functional competences to match the requirements of a changing environment. This changing environment can be expressed in terms of market knowledge for venture capital firms.

Thus the Dynamic Capabilities approach stresses both internal as well as external firm specific competences and capabilities to address changes in the firm's environment. Teece et al. (1997) stress that the greatest potential for contribution to strategic management is to be found in "skill acquisition, learning and accumulation of organisational and intangible or invisible assets" (1997: 514). Thus market knowledge and continuous learning are both important aspects of the management and organisations literature.

#### Market knowledge and continuous learning - Summary & Proposition

The analysis of the literature shows strong support for the view that market knowledge and continuous learning is an important element of firm success. All the successful firms in our study actively and purposefully seek to increase their market knowledge and many also seek to do so via continuous learning.

The failed firms showed less propensity to obtain market knowledge as they do not actively use outside experts and do not have even have Advisory Committees unlike the successful firms.



Hence our fourth proposition is as follows:

***P4: A higher level of market knowledge and continuous learning within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.***

#### **6.2.5 Independence of the management team**

##### **a) Global Venture Capital Literature**

This is not an aspect in which there is a lot of research in this field. However, in their study on foreign venture capital investing in India, Pruthi et al. (2003) found that parent firms tend to set policy only after discussion with the local subsidiary. Hence the foreign parents do not constrain the discretion of their local subsidiary to make decisions and to monitor their investments. They do however attempt to institutionalise local executives into their way of conducting business. This is done by inpatientation, where a significant percentage of their Indian executives have some experience or spend some time in the foreign parent's domestic market. This shows that there is a lot of independence given to the local subsidiary.

##### **b) General Venture Capital Literature**

There are no studies in the general venture capital literature that contribute to this finding.

##### **c) Entrepreneurship and International Management Literature**

There are no specific studies in the entrepreneurship and international management literature that show whether the independence of management teams contributes to greater success, growth or profitability. However, some literature is relevant to show that management team independence is important for firms. Firstly, in internationalisation studies, multinational corporations have been found to share the core capabilities of the parent company with their subsidiaries and partners abroad by developing close external relationships with their partners. Especially in cases where the multinational corporations work with partners, Mascarenhas et al. (1998) found that developing these close relationships are the best way to ensure the success of the company's international



business and to build on the parent's core competencies. The independence of the partners is not infringed but the mutual partnership is instead built on close relationships.

Our studies show that the successful firms like Walden, BCEA and H&Q all meet the criteria of having managers who are older, more experienced and have high educational levels. They corroborate these assumptions by indicating in their interviews that they have more independence. The failed firms however show less propensity for independence and have managers who are generally younger, have less experience and are also less or only similarly educated. The final criterion is that the failed firms indicated much less levels of independence in their interviews thus confirming the view that success is closely related to independence.

Additionally, in research on top management teams, Carpenter et al. (2004) found that top management team construct and membership are often identified by title or position, since individuals in higher positions are expected to have greater influence on strategic decision-making and are more likely to influence the strategic outcomes of the firm. In our study, we have used the title and positions of the managers in our case studies to indicate greater influence on the firm's strategy and also its independence. We made the assumption that managers with higher titles like Managing Director or Country Manager equate greater levels of independence. This assumption finds some support from the study of Carpenter et al. (2004)

In general terms however, one of the earliest studies on top management teams is by Hambrick & Mason (1984) who stated that organisational outcomes – strategic choices and performance levels – are partially predicted by managerial background characteristics. These characteristics include age (young managers are more inclined to pursue risky strategies and will also experience greater growth); career experiences (in a stable environment, firms in which managers have more experience will have greater profitability and growth); education (the amount, but not type, of formal education is positively associated with innovation) and group heterogeneity (homogenous teams make strategic decisions faster than heterogeneous teams but in turbulent environments team heterogeneity is positively associated with profitability).

Furthermore, recent research on top management teams has served to extend this model, for example, studies that show that top management team characteristics affect new venture success (Eisenhardt & Schoonhoven, 1990), the effect of their characteristics on the strategies of technology IPOs was dependent on the characteristics of their boards of directors, the experience of their venture capitalists and even the form of their compensation (Carpenter et al, 2003) and that the founders' participation in the team and managers' past experience in the industry contribute to the competence of the team in seizing new growth opportunities (Kor, 2003).

We have used many of the aspects endorsed here in our study and methodology. Especially in determining the independence of the management team, we have followed Carpenter et al. (2004) in giving additional weight to the fact that managers with important titles and higher positions show greater propensity for independence. The same assumptions were made for managers who are older, have greater levels of experience and those who are more educated.

It must be noted however that there are no specific studies in the entrepreneurship and international management literature that show whether the independence of management teams contributes to greater success, growth or profitability. This is a gap in the literature that needs to be filled.

#### d) Management and Organisational Literature

Research in the field of the management and organisations and management team independence in international or cross-border firms is sparse but the available research shows that independence can be a valuable asset in success. Firstly, in terms of human resources in the management and organisations literature, Newburry & Yoram (1999) suggest that permitting an international joint venture to develop local human resource policies and to implement business plans independently of the parent company contribute to the joint venture's effectiveness. Additionally, in terms of the firm itself, there are several studies that explore independence. Baker (2004) states that the board of directors, management and the CEO make up the team that is responsible for the success of a company and to ensure this success the board must be independent.

In their study on core capabilities and the competitiveness of companies, Stalk et al. (1992) state that in becoming a capabilities-based competitor, the firm cannot delegate the process of transformation to middle management. It requires the hands-on guidance of the CEO and the active involvement of top line managers. They believe that this process of change and strategy are too important to be left to lower level managers and also that the leading role of the CEO shows the commitment of the senior management to the change process. While this proposition seems to imply that the top management cannot let the subsidiary's management have full independence, the study was not based on international subsidiaries. This is an area that requires further study.

While management team independence in terms of international businesses has not been given extensive treatment within the management and organisations literature available research shows that independence can be a valuable asset in success.

#### Independence of the Management Team - Summary & Proposition

The analysis of the literature shows some support for the view that the independence of the management team is an important element of firm success. The cases in this research have shown that independence contributed to success while the lack of independence can contribute to failure. Both the failed firms in our study showed no evidence of independence.

While research in this field in relation to global venture capital is sparse there is adequate support for our fifth proposition as follows:

***P5: Management team independence at the regional office level is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.***

#### 6.2.6 Summary – Enfolding Literature

The above analysis of the enfolding literature in the four different fields of global venture capital, general venture capital, entrepreneurship and international management and management and organisational literature has enabled us to confirm our initial findings and our five propositions. We have seen from this discussion that taken together the four areas of management literature provide a lot of support for our findings. Through this support, the propositions that we have generated are viable and robust and we can use

these propositions for the formulation of meta-propositions in section 7. However, before formulating meta-propositions the next step in our process is to first determine if enough work has been done, i.e. whether there is theoretical saturation.

### **6.3 Theoretical Saturation**

In reaching closure for the research we need to ensure that we have done what is necessary to fulfil the conditions of the Grounded Theory and case study methodologies. We need to be sure that we have done enough work in terms of having enough cases and data so that our findings are valid and robust. Here we will summarise the requirements for reaching closure by studying what several authors' state is necessary.

In building propositions from case studies, Eisenhardt (1989) states that there are two aspects to reaching closure – theoretical saturation and determining when to stop iterating between propositions and data. For both aspects saturation is the key. Theoretical saturation is "...the point at which incremental learning is minimal because the researchers are observing phenomena seen before" (Eisenhardt, 1989: 545). Glaser & Strauss (1967) stated that when no additional data are being found to develop properties of the categories or when the researcher sees similar instances over and over again, the researcher could be confident that a category is saturated.

In management research Locke (2001) added that development is complete when categories reach a point where subsequent data results in no new naming activity regarding that category. Thus theoretical saturation is reached when subsequent data provide "no new information, either in terms of refining the category or of its properties, or of its relationship to other categories". Eisenhardt (1989) also stated that the second aspect to theoretical saturation is when the incremental improvement to propositions is minimal. The above recommendations will be applied to the research that has been done here to determine if theoretical saturation has been reached.

#### **6.3.1 Observing similar instances**

In developing categories for this research I have used two methods:

- i) The iteration between the data and the development of categories and,

- ii) The evidentiary method of Hargadon & Sutton (1997) to determine the commonality of occurrences of the different categories and sub-categories within the data

Categories were first developed from the data sets beginning with the first interview and ending with the last, including the multiple interviews with some managers. As each interview progressed, notes and memos were made and categories were discovered and highlighted. For example, the sub-category of expertise and knowledge base of the management team was discovered in the first interview with Ang and the other managers repeated these throughout the many interviews. Table 6.1 below shows the progression of the expertise and knowledge base category development from the different interviews on a chronological basis.

As can be seen there is repetition of the same category by almost all of the participants. All the managers identify that expertise and knowledge base are important. Only two managers did not mention expertise or knowledge base in the interviews, but in a subsequent follow up email and when they responded to the findings of their interview they confirmed the need for this category as well. We can conclude that we have theoretical saturation if:

- We are “observing phenomena seen before” (Eisenhardt, 1989)
- If we “see similar instances over and over again” (Glaser & Strauss, 1967) and,
- When subsequent data provide “no new information, either in terms of refining the category or of its properties Locke (2001)

Using the expertise and knowledge base category above and based on the above requirements, we can conclude that we have theoretical saturation in the category because:

- There is repetition in the interview data as the interviews progress, so we are observing phenomena seen before;
- We are seeing similar instances over and over again, and;
- There is no new information in terms of refining the category or its properties.

As we meet all the criteria for theoretical saturation the conclusion is that in this category we have theoretical saturation. Similarly we also have theoretical saturation for all the



other categories as they also show the same progression as for expertise and knowledge base. The complete category development evidencing theoretical saturation is provided in Appendix A1 for all other categories.

	DATE OF INTERVIEW	NAME OF PARTICIPANT	STATEMENT ON EXPERTISE OR KNOWLEDGE BASE	EVIDENTIARY VALUE
1)	29-Sep-2004	Ang Yoke-Kee	There is a lot of sharing of info between their experts... SBEM has ... expertise and seasoned professionals.	Strong Support
2)	13-Oct-2004	Alan Tan	Insufficient expertise in the VC industry. They invest in things they understand. What works best is what we know best.	Strong Support
3)	17-Oct-2004	Alan Tan	No further additions	
4)	20-Oct-2004	Yong Thian Sze	Partners are confident because of the knowledge base within the firm & their expertise in markets and industries	Strong Support
5)	21-Oct-2004	Chok Kwee Bee	Have the right partners within the firm ... partners are industry people, so they know the industry well. Partners must also have good financial background. Walden wants people with domain expertise.	Strong Support
6)	22-Oct-2004	Husni Salleh	They do business development and will even project manage the deals. They also do fund raising for their investees	Moderate Support
7)	29-Oct-2004	Cindy Tee	The industry heads look at the development of the industry. The US gives tips & pointers.	Moderate Support
8)	4-Nov-2004	Esmond Goel	Investment model is based on experience and knowledge of the VC	Strong Support
9)	15-Nov-2004	Yeo Tien Kiong	They should not expect professionals to change to adapt to the market as their expertise was not put to use. Changing all the time meant that they did not develop an expertise & whatever expertise they had was wasted	Strong Support
10)	17-Nov-2004	Jason Ng	Transpac didn't have enough domain expertise. In 1997 Asian crisis they shifted focus... but they don't have the ... knowledge for such investments. To make such investments they must have industry knowledge & domain expertise	Strong Support
11)	18-Nov-2004	Chong Chee Kheng	Strategy formulated by respect. country heads, industry experts in the group. Expertise of other offices & partners used often	Strong Support
12)	19-Nov-2004	Karan H. Ponnudurai	Diff bet SBEM & the competition was the industry expertise & domain knowledge within SBEM. They are industry experts	Strong Support
13)	22-Nov-2004	Chok Kwee Bee	There is also a sharing of views and knowledge among the partners. Difference bet global and local players is lack of knowledge (among the locals). Locals lack exposure	Strong Support
14)	3-Dec-2004	Patan Somburanasin	No specific mention	No Support
15)	4-Dec-2004	Virapan Pulges	No specific mention	No Support
16)	6-Jan-2005	Chok Kwee Bee	Need to consider what industry to invest in ... depends on the domain expertise of the partners	Strong Support
17)	10-Jan-2005	Peter Chan	Team members are the most important. They must have the right people ... must be supported by the team's expertise	Strong Support
18)	20-Jul-2005	Patan Somburanasin	Management team expertise & knowledge base is very crucial for the success of our investment	Strong Support
19)	10-Aug-2005	Virapan Pulges	Private equity ... requires deep knowledge about the industry. The best way is to get a management team who are expert in the industry...	Strong Support

Table 6.1 – Developing Categories from Interview Data

### **6.3.2 Minimal Incremental Improvement to Propositions**

The second observation made by Eisenhardt (1989) is that the iteration process stops when the incremental improvement to propositions is minimal. We have seen in section 6.2 that based on the findings we have been able to make five propositions. The five propositions have also been compared to the enfolding literature and we have determined that there is strong validity.

The question that must be asked here is will further iteration improve the propositions? Will there be significant improvement to propositions? There is strong evidence of support for these propositions based on all the available data, the 17 interviews, the triangulated data and the positive responses to the findings by the respondents themselves. It has also been compared to enfolding literature and found strong support there. Based on this it is safe to conclude that incremental improvement to propositions will be minimal and hence there is no further need for iteration between the propositions and data.

### **6.3.3 Summary for theoretical saturation**

We have met all the requirements for theoretical saturation that have been put forth by Eisenhardt (1989), Glaser & Strauss (1967) and Locke (2001). Hence we can conclude that we have reached saturation and that the five propositions are valid and strongly supported by the data and the methodology.

## **6.4 Conclusion on Generating Propositions**

In this section we set out to generate propositions that were valid and robust based on the Grounded Theory and case study methodology. This was achieved through this methodology via the constant comparative approach and the pattern matching of categories within each case and across the cases. The propositions were then matched with the enfolding literature in four areas of management: the global venture capital literature, the general venture capital literature, entrepreneurship and international literature and finally the management and organisational literature. By matching with the extant literature, the propositions were validated by showing that the literature supported the findings and this gave additional credence to the validity of the propositions. The final step was to ensure that there was theoretical saturation and this was also verified.

Based on this we have five valid propositions as set out in sections 6.2.1 to 6.2.5 above. The next step is to develop meta-propositions from these five propositions that will provide an answer to our research question.

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## **7. Developing Meta-Propositions**

The primary objective of the Grounded Theory and case study methodology that we have employed in this dissertation is to develop meta-propositions from the data using an inductive method of analysis. Glaser & Strauss (1967) state that by starting with raw data (as has been done here), the analyst can end up with substantive theory, or in our case meta-propositions, for the substantive area on which the research has been done. The reasons for developing meta-propositions and not theory were stated in section 3.13.

In section 6 we developed five propositions and in this section we will use these propositions to develop meta-propositions. The difference between propositions and meta-propositions is that propositions were developed from the analysis of data but do not provide us with a complete answer to our research question. Meta-propositions are therefore formulated by incorporating the propositions into or with existing theoretical strands and by using this discovery find an answer to the research question.

In section 6.2 on enfolding literature we matched propositions to the enfolding literature and in so doing we discovered that the propositions found support within three strands of management theory; the Resource Based View, Core Competence theory and Dynamic Capabilities view. Based on this discovery, it can be inferred that these three theoretical strands may be relevant for this dissertation. We shall therefore analyse these three theoretical strands by looking at our data and what other researchers state and from that reach a conclusion on the validity of our propositions and develop relevant meta-propositions to answer our research question. We start with the Resource Based View theoretical strand.

### **7.1 Resource Based View**

In section 6 we had five propositions each of which will be considered in turn in terms of the Resource Based View theoretical strand.

#### **7.1.1 Experience**

The first proposition, P1 was:



***“A higher level of relevant venture capital and industry experience within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia”***

(a) Input from Data

We have seen from the examples of the successful firms that all the firms have experienced management teams. The senior partners or founders have between 10 and 20 years venture capital and investing experience and many also have relevant industry experience. Tan Lip-Bu of Walden has almost 2 decades of industry experience investing in semiconductor and electronic manufacturing while T.S.Yong of BCEA has 17 years experience in telecommunications including as Country Director at Singapore Telecommunications and almost 10 years telecom investing experience. By contrast in the failed firms Ang and Ponnudurai of SBEM had zero years experience in venture capital and did not have any experience in the Internet industry while Ng of Transpac had venture capital investment experience but because the firm moved into private equity investing, he personally felt that his experience was not relevant. Ng also did not have relevant industry experience, as he had only been in the investment industry all his life.

(b) Input from other Research

Other authors have identified specific attributes of experience as it relates to the human capital of the firm confirming that it is a valuable resource for the firm. Hitt et al. (2001) have found that experience of the firms' top managers can affect firm outcomes, are deemed among the firm's most important resource and that more experienced partners have been found to contribute more returns to the firm than new partners. Experience also contributes to competitive advantage (Harris & Helfat, 1997) and can reduce information asymmetries when firms enter new geographic markets (Nayyar, 1993). Hitt et al. (1997) also suggest that firms with little experience in managing diversity may suffer performance declines especially in initial geographic diversification. This could be equally applicable to managing significant changes like 9-11 and the dotcom bust. Cooper & Bruno (1977) also found a positive relationship between prior experience in the industry and firm success.

(c) Conclusion

Both the data and other research in similar fields shows that firms with the more experienced management teams are better able to invest successfully and manage change and have shown greater success than those with less experience. Hence there is strong support for our first proposition (P1) that experience is an important aspect of the Resource Based View.

#### **7.1.2 Expertise and knowledge base**

The second proposition, P2 was:

***“A higher level of venture capital and industry expertise and knowledge base within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia”***

##### **(a) Input from Data**

Our study of the firms again shows that this proposition is relevant. In the successful firms, the senior managers and partners had extensive expertise and knowledge base in their investment focus while the failed firms' managers did not. For example, in H&Q Dr. Ta-Lin Hsu, the founder and Chairman has a PhD in Electrical engineering while the Managing Director of the Thai office, Virapan Pulges had a Masters in Electrical Engineering. The firm's focus is in the field of electrical and electronics manufacturing and their Thai investments included Fabrinet, a contract electronics manufacturer and SVI Public Company another electronics manufacturer. Thus this firm focuses on its expertise and invests in related industries. The same applies to the other firms.

In the failed firms, the managers of SBEM only had telecommunications and corporate finance expertise but were investing in the Internet and software industry. While there is no doubt that telecommunications expertise does have some value such knowledge is still insufficient to understand say, enterprise software firms like The Media Shoppe, a firm they were interested to invest in. The Transpac managers also had little relevant expertise, for example Yeo had building materials expertise but they were investing in the technology industry, hence his expertise was of little relevance to the firm.

#### (b) Input from other Research

Galbreath (2005) stated that “capabilities are argued to be the pre-eminent sources of firm success”, Grant (1996) believes that the success of any firm is solely dependent upon the knowledge or know-how of its employees and Castanias & Helfat (1991) suggest that firm performance is critically linked to the skills, expertise and know-how of managers.

Hitt et al. (2001) have identified the skills of the firm's top managers as an important aspect of human capital that affects firm outcomes. Partners' skills and know-how also enable the firm to identify market opportunities in foreign markets and ensure survival and development of their ventures as well as enable them to undertake more promising competitive strategies (Westhead et al., 2001). Storey (1994) states that skills and competences are a key factor influencing business survival and development. Partners with expertise also enable the firm to identify and obtain more resources from their external environment (Cooper et al., 1994).

#### (c) Conclusion

This study has also shown that the partners and senior managers in the successful firms have more expertise and knowledge than the managers of the failed firms especially in their focus industries. This finding is in concurrence with the findings of the authors mentioned above and also in the literature review.

Thus it is clear from the above that expertise is a very important element of the Resource Based View of the firm and is a key part of firm success. Hence there is strong support for our second proposition (P2) as well.

#### 7.1.3 Knowledge Sharing

The third proposition, P3 was:

*“A higher level of knowledge sharing within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia”*

#### (a) Input from Data

The analysis shows that in the successful firms there is extensive knowledge sharing while this is less evident in the failed firms. In Walden for example, there are regular quarterly meeting, there are other partner meetings and also strategy meetings. These meetings involve the senior managers from all the different offices and they regularly share knowledge and strategise for the future. This is less evident in the failed firms and in Transpac the managers actively don't share knowledge because of rivalry among the regional offices resulting in the failure of knowledge sharing in the group as a whole.

#### (b) Input from other Research

Knowledge sharing has been identified as important for the maintenance of unique firm competencies and in promoting and maintaining socially complex relationships characterized by trust and teamwork (Wright, et al. (2001). It is also important to enable firms to realise the economic value of their knowledge assets especially in a technology centric economy (Gold et al., 2001), while identifying and cultivating the process of knowledge sharing can also improve firm profitability (Kearns & Lederer, 2003).

Prahalad & Hamel (1990) contend that key employees and top managers are "competence carriers" and they can build and share their competencies for the benefit of their firm by being regularly brought together from across the corporation to trade notes and ideas.

#### (c) Conclusion

This study has shown that successful firms regularly engage in knowledge sharing within the management team. The failed firms on the other hand do not show evidence of knowledge sharing and even when they do meet in some cases they actively avoid sharing knowledge thereby creating a greater propensity for failure.

This shows that proposition three (**P3**) knowledge sharing, is another important element of the Resource Based View and a key part of the success of the firms in this study.

#### 7.1.4 Market Knowledge And Continuous Learning

The fourth proposition, **P4** was:

***“A higher level of market knowledge and continuous learning within the management team is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia”***

(a) Input from Data

This analysis shows that the successful firms realise the need for additional market knowledge and use external professionals and experts to obtain this knowledge. For example Walden and H&Q both have Advisory Committees consisting of very experienced and knowledgeable experts while BCEA uses the vast ING-Barings global network to seek knowledge that they need. All these firms also use outside professionals when necessary. The failed firms however do not have Advisory Committees and don't show evidence of the use of external professionals.

The successful firms also actively seek knowledge by continuously learning through informal means like the use of external professionals and by formal means like attending the VC Institute (Walden).

(b) Input from other Research

In studying new venture internationalisation, Cooper et al. (1995) state that information is a key resource for the new venture. However many newly globalizing firms do not have detailed information about markets and this can act as a barrier to their plans to internationalise. Westhead et al. (2001) found that external professional advisors provide advice, counsel and knowledge not available among the management team and can help identify critical resources from the environment not otherwise available to the managers of the firm. External advisors can also draw the attention of managers to a variety of opportunities in foreign markets (Chaudhry & Crick, 1998).

Firms can also increase their market knowledge through a process of continuous learning. Prahalad & Hamel (1990) believe that firms must have the ability to identify, cultivate and exploit the competencies that make firm growth possible and one way of doing this is through organisational learning. They state that there must be collective learning in the organisation, this learning must be organised and delivered or implemented within the firm by creating competitive advantages and both the collective learning and implementation must involve everyone in the organisation at all levels.



Another way in which managers learn about market knowledge is by travelling regularly and talking frequently to customers and their peers (Prahalad & Hamel, 1990).

Flood & Olian (1995) lend further support for this view as they found that human resources have the potential for skill renewal and avoidance of obsolescence through training and education while Kogut & Zander (1993) state that as firms compete on the basis of the superiority of their information and know-how, their abilities to develop new knowledge by 'experiential learning' is a key factor in success.

### (c) Conclusion

This study has shown that obtaining market knowledge and continuous learning is something that the successful firms do. The successful firms make extensive use of external professionals and have special Advisory Committees from which they get extra knowledge, which is not available within their firms. This fits in with the findings of other researchers above. There is also a process of learning within the successful firms.

From the above analysis it can be concluded that the fourth proposition **P4**, market knowledge and continuous learning is a very important element of the Resource Based View of the firm and is a key part of firm success.

### 7.1.5 Management Team Independence

The fifth proposition, **P5** was:

***"Management team independence at the regional office level is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia"***

#### (a) Input from Data

The analysis shows that management team independence is an important prerequisite that differentiates between the successful and failed firms. The successful firms have management teams that have been endowed with high levels of independence. This is reflected in the fact that firms like H&Q and Walden depend on their regional managers to provide input on their industry focus and on what happens in their respective regions. The failed firms like SBEM and Transpac have their investment decisions including their investment focus thrust on them by their headquarters or by their CEO and Founder in

the case of Transpac. The regional managers are also unable to make investment decisions, as all decisions are dependent on their headquarters or their CEO in the case of Transpac. The ultimate lack of independence is proven by the unilateral decision of their headquarters to shut down their offices despite them having several investments in hand like SBEM.

#### (b) Input from other Research

Henderson & Leleux (2002) found that among corporate venture capital firms, the firms that were more independent from their corporate office were more sustainable and were better accepted by the business units than those with less independence. While researching corporate groups, Campbell et al. (1995) discovered that many corporate parent companies destroy value. They surmised that businesses in corporate portfolios would be better off as independent companies. The parent company's influence caused subsidiary managers to make poorer decisions than if they were independent.

Foss & Pedersen (2004) state that independent subsidiaries of multinational companies do provide a number of benefits to the group such as the ability to tap into local systems of innovation, integrating local competencies and introducing more dynamism into the parent company. This is supported by Ghoshal et al. (1994) who found that greater autonomy also enables the subsidiary's managers to deal appropriately with the local market and task environment as they are in a better position than the headquarters to evaluate the needs and demands of the particular markets they serve. Venaik et al. (2001) also show that MNCs that provide greater independence and autonomy will enhance innovation, performance and motivation of the subsidiary's managers.

#### (c) Conclusion

Thus there is strong support to show that management team independence is important for firm success. As seen in this study, the firms with greater independence show greater propensity for success while those with no independence failed. This shows that to enable regional offices to have a greater chance of success the parent venture capital firms must give the regional office adequate autonomy and the management teams sufficient independence to make investment decisions as well as strategic decisions on investment and market focus.

This analysis enables us to conclude that the fifth proposition **P5**, management team independence, is another important element of the Resource Based View of the firm and is a key part of firm success.

#### **7.1.6 Meta-Proposition - Resource Based View**

This section shows that the study and analyses provide strong support that the Resource Based View as a theory of the firm has great relevance to our study on why some global venture capital firms are more successful than others. It shows that firms that have experienced managers with the relevant expertise and knowledge base and who share knowledge with each other on a regular basis generally will be more successful. Success is also enhanced when these firms continually seeking additional market knowledge from external sources and have a program for formal or informal forms of continuous learning. The final requirement is that the parent firms provide their regional offices with sufficient independence to make strategic and investment decisions.

This theoretical analysis provides us with our first meta-proposition:

***MP1: "The Resource Based View, encompassing the management's experience; expertise and knowledge base; knowledge sharing; market knowledge and continuous learning; and independence; is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia"***

We will discuss this further in the conclusion section 7.4.

## **7.2 Core Competence**

In section 6.2 on the enfolded literature, we used elements of the core competence view to review the five propositions discovered in section 5 and found that it provided theoretical support for the propositions. This leads us to a possible conclusion that this strand of management theory can provide valid input to answer our research question by allowing us to apply this theory to our specific context and thereby develop a meta-proposition. The following discussion will incorporate the five propositions into the core competence view in search of an answer to our research question. We start the analysis with a discussion of the definitions of core competence.

Prahalad & Hamel (1990) defined core competence as:

- ❑ The collective learning in the organisation
- ❑ The organisation of work and delivery of value
- ❑ Communication, involvement and a deep commitment to working across organisational boundaries, involving many levels of people and all functions

Coyne et al (1997) define core competence as:

"... a combination of complementary skills and knowledge bases embedded in a group or team that results in the ability to execute one or more critical processes to a world class standard" (1997:43).

When we consider these two definitions in greater detail, it is possible to restate the important elements of core competence as:

'A combination of complementary skills and knowledge base, embedded in a management team through a process of collective organisational learning, that results in the ability to deliver and execute critical processes across organisational boundaries by communicating with and involving many levels of people and all functions'

This restatement of the definition of core competence exhibits elements that are part of our five propositions. We shall now explore the details of the above restatement and determine whether there is any relevance to our five propositions.

### **7.2.1 Core Competence and the Five Propositions**

Firstly we can break down the restatement into the following elements:

- a) A combination of complementary skills and knowledge base;
- b) Embedded in a management team through a process of collective organisational learning;
- c) That results in the ability to deliver and execute critical processes across organisational boundaries;
- d) By communicating with and involving many levels of people and all functions

We can now explore the restatement in terms of the five propositions that we have established.

a) A combination of complementary skills and knowledge base:

Our second Proposition (P2) states that a higher level of venture capital and industry *expertise and knowledge base* within the management team is positively associated with firm success. This fits in very well with the need for complementary skills and knowledge base in the restatement and thus fulfils the first element.

b) Embedded through a process of collective organisational learning:

The fourth Proposition (P4) indicates that a higher level of market knowledge and continuous learning within the management team is positively associated with firm success and thus again fits well with the need for organisational learning in the core competence concept.

c) Ability to deliver and execute critical processes across organisational boundaries:

This ability to deliver and execute critical processes has been shown by the firms that have experience at successfully investing and exiting their investments across their regional offices. Organisational boundaries can mean outside the firm and the group as a whole. The failed firms do not have such experience and thus do not show such ability. Hence we can say that Proposition one (P1), a higher level of relevant venture capital experience positively impacts on the ability to deliver and execute these critical processes across organisational boundaries, therefore P1 is an important aspect of the restatement.

Additionally in global venture capital firms in particular, this ability to execute critical processes is best performed by management teams that have high levels of expertise and management independence as shown by Propositions two (P2) and five (P5).

d) By communicating and involving many levels of people and all functions

The final element of the restatement is best evidenced by our third Proposition (P3) that a higher level of knowledge sharing within the management team is positively associated with firm success. The communication with and involvement of all people is shown in the



knowledge-sharing component in our study and thus P3 is also another important aspect of the restatement.

### **7.2.2 Meta-Proposition – Core Competence**

This analysis shows that our propositions fit comfortably within the concept of the core competence of the firm thereby lending weight to the fact that we can develop a possible meta-proposition of the core competence of the successful global venture capital firm. By incorporating our propositions into the Core Competence view we can make the following statement:

*“Successful global venture capital investing in South East Asian emerging markets requires a combination of experience and complementary expertise and knowledge base, embedded in an independent management team through a process of collective organisational learning, resulting in the ability to deliver and execute critical investment strategies and processes across organisational boundaries by communicating and sharing knowledge with all levels of people across all functions”*

This statement provides strong support for a meta-proposition that the concept of the core competence of the firm is very relevant for the success of global venture capital investing in the emerging markets of South East Asia. As can be seen, all the propositions that have been discovered in this study lend strong support to this statement. This leads us to conclude that Core Competence is valid for the success of global venture capital investing and hence we can state with confidence that we have a valid and reliable meta-propositions based on the Core Competence view as follows:

***MP2: The Core Competence of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

This is the second meta-proposition that has been discovered by the research in this dissertation. We will discuss this further in the conclusion in section 7.4.

### 7.3 Dynamic Capabilities

The third potential meta-proposition is based on the concept of the dynamic capabilities of firms. In section 6.2 we discussed this theoretical strand and found that it provided support for our findings. Therefore similar to core competence in section 7.2 above, this leads us to the conclusion that it may have relevance as a meta-proposition for this dissertation and we shall explore this possibility here. We begin with a definition of dynamic capabilities.

Teece et al. (1997: 515) defined the elements of dynamic capabilities as:

“‘Dynamic’ refers to the capacity to *renew* competences so as to achieve congruence with the *changing business environment*. ‘Capabilities’ emphasises the key role of strategic management in ... adapting, integrating and reconfiguring *internal and external* organisational *skills*, resources and functional competences to match the requirements of a changing environment”

They also stress that skill acquisition, learning and accumulation of organisational and intangible assets are highly relevant to the firm and emphasise the firm’s internal processes, assets and market positions. Dynamic capabilities are especially important when business environments change rapidly and the future of industry difficult to determine, both highly relevant points in the global venture capital industry.

Knudsen & Madsen (2002) state that managerial competence cannot be isolated from the firm’s existing capabilities and informational architecture and is dependent on mutual and intertwined knowledge, capabilities and viewpoints of the entire management team. Kylaheiko et al. (2002) also regard firms “primarily as knowledge repositories” analysing knowledge in terms of knowledge creating, transferring and integrating processes.

Based on the above, we can restate the Dynamic Capabilities concept as follows:

*Dynamic capabilities is the capacity of the management team to match the requirements of a changing environment by renewing firm competences based on the informational architecture of mutual and intertwined knowledge and capabilities and by transforming internal and external organisational skills, resources and functional competences through a process of skill acquisition and learning.*

This restatement of the definition of dynamic capabilities exhibits elements that are part of our five propositions. We shall now explore the details of the above restatement and determine whether there is any relevance to our five propositions.

### **7.3.1 Dynamic Capabilities and the Five Propositions**

Firstly we can break down the restatement into the following elements:

- a) Capacity of the management team to match the requirements of a changing environment.
- b) By renewing firm competences;
- c) Based on the informational architecture of mutual and intertwined knowledge and capabilities;
- d) By transforming internal and external organisational skills, resources and functional competences
- e) Through a process of skill acquisition and learning

We can now explore the restatement in terms of the five propositions that we have established.

#### **a) Capacity of the management team to match a changing environment**

The capacity of the management team can relate to three aspects of our propositions: firstly the experience of the management team (P1), secondly to the expertise and knowledge base of the team (P2) and thirdly to their independence in responding to the changes (P5). Management teams who have little or no experience in the venture capital and technology industry will find it hard to understand much less respond to the changing business environment. Teece et al. (1997:528) state that "competitive success occurs in part because of policies pursued and experience and efficiency obtained in earlier periods", thereby alluding to the importance of experience in adapting to changes in the environment. Understanding and responding to changes also requires expertise and skills as well as an in-depth knowledge base of the industry and investment strategies. Thirdly, the management team must have the independence to determine what strategies are required to make these changes. If there is too much control from a faraway headquarters that might not understand the changes taking place or the strategies necessary to adapt to these changes, then the team's capacity is constricted and it will not be able to make the necessary changes.

This study has shown that the successful venture capital firms have been able to respond to and overcome the many significant changes in the industry in the last eight years from the Asian financial and currency crisis of 1997 to the dotcom bust of 2000 and the impact of the 9-11 attacks in the USA. The failed firms on the other hand have succumbed to these changes with the closure of both firms attributed to a large extent to these changes. The successful firms have also been given the independence of formulating the necessary changes including changing their industry focus if necessary.

Thus management team experience, the expertise and knowledge base of the firm and management team independence are crucial aspects of the capacity of the management team to make changes, lending support to the contention that Propositions one (P1), two (P2) and five (P5) are relevant propositions for this aspect of dynamic capabilities.

#### b) Renewing firm competences

The process of renewing firm competences is related to Proposition 4 (P4) - a higher level of market knowledge and continuous learning within the management team. The process of continually improving the market knowledge of the management team and the continuous learning process of the firm will assist the firm in renewing its competences. The successful firms have been able to match the changes in the business environment by using outside experts and learning all the time, showing that renewing competences is an important component of the success of the firms in our study. Hence P4 lends strong support to this aspect of dynamic capabilities.

#### c) Informational architecture of mutual and intertwined knowledge and capabilities:

Informational architecture was used by Knudsen & Madsen (2002) to denote the organization of knowledge through stable connections both internal and external. Internal connections are links within and between organisational subunits while external connections are links to parties in the market and the wider institutional environment. Connections are defined as "direct and stable information flows between members of an organisational subunit" (Knudsen & Madsen, 2002: 845). Based on this Propositions 2, 3 and 4 are all relevant.

The knowledge base of the firm as described in P2 relates to this aspect of dynamic capabilities, the intertwined knowledge and capabilities of the firm, as endorsed by the authors. P3 relates to the level of knowledge sharing, the 'information flows' among and within the management teams at all levels of the group and thus relates to the 'internal connections' mentioned above. P4 relates to market knowledge and obtaining knowledge from sources outside the firm, thus they are related to the 'external connections' to parties in the market and the wider institutional environment mentioned by Knudsen & Madsen (2002).

We can see from this that the three Propositions, P2, P3 and P4 are all relevant components of this aspect of our restatement of the dynamic capabilities view.

d) Transforming internal and external organisational skills, resources and functional competences

The transformation of internal and external skills, resources and competences are all related to firstly the expertise and knowledge base of the firm and secondly to the experience of the management team in being able to manage and understand the need for such transformation. Thus P2 is relevant to the aspect of skills, resources and competences of the dynamic capabilities view while P1 is related to the experience needed to do this in the first place.

We have seen from the study that the successful firms have been able to transform their firms right through the many significant changes in the environment and have successfully navigated the different crises that impacted all firms in emerging Asia. This was done by adapting to the changes, acquiring new knowledge and skills and by strategising and changing their investment and market focus if necessary. The failed firms did not manage the changes well, did not acquire new skills and competences and in the end had to close their operations. Thus we can see that P1 and P2 are relevant components of this aspect of the dynamic capabilities view.

e) Through a process of skill acquisition and learning

The last aspect that was identified was the process of skill acquisition and learning for which P4 has strong relevance. Proposition 4 relates to the process of market knowledge and continuous learning and how this enhances the knowledge base of the



firm. In the dynamic capabilities view as restated here, the need for skill acquisition and learning are clearly identified. The successful firms in our study also demonstrated clearly the value and need for both of these elements showing that P4 strongly supports this element of the dynamic capabilities view.

### **7.3.2 Meta-Proposition – Dynamic Capabilities**

This analysis shows that our propositions fit comfortably within the concept of the dynamic capabilities view of the firm thereby lending weight to the fact that we can develop a possible meta-proposition of dynamic capabilities of the successful global venture capital firm. By incorporating our propositions into the Dynamic Capabilities view we can make the following statement:

*Successful global venture capital investing in emerging markets requires the dynamic capabilities of an independent management team that manages a changing business environment by renewing internal and external firm competences and skills based on an informational architecture of mutual and intertwined knowledge and capabilities through a process of skill acquisition and learning.*

This statement shows that the concept of the dynamic capabilities of the firm is very relevant for the success of global venture capital investing in the emerging markets of South East Asia. As can be seen, all the propositions that have been discovered in this study lend strong support to this statement. This leads us to conclude that Dynamic Capabilities are valid for the success of global venture capital investing and hence we can state with confidence that we have a valid and reliable meta-propositions based on the Dynamic Capabilities view as follows:

***MP3: The Dynamic Capabilities of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

This is the third meta-proposition that has been discovered by the research in this dissertation. We will discuss this further in the conclusion in section 7.4 as follows.

#### **7.4 Meta-Propositions and Relevance to Research Question**

As seen in the discussions above, we have formulated three meta-propositions that have shown high levels of relevance towards providing an answer to the research question in this dissertation. We shall now review these meta-propositions as they apply to our cases and make a determination on whether these meta-propositions do provide an answer to our research question, which is reproduced below:

***“Why are some venture capital firms more successful in global venture capital investing than others and how do they ensure this success?”***

We shall begin the review with the meta-propositions based on the Resource Based View.

##### **7.4.1 Resource Based View**

We found that all five propositions that we discovered in section 6 above fitted within the theoretical strand of the Resource Based View. Hence our meta-proposition based on this theoretical strand was:

***MP1: “The Resource Based View, encompassing the management’s experience; expertise and knowledge base; knowledge sharing; market knowledge and continuous learning; and independence; is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia”***

The Resource Based theory of the firm has important ramifications in answering our Research Question in determining the difference between success and failure. The data and analysis has shown that the five propositions have all played a role in the success or failure of our firms. This analysis is strongly supported by research not only in the field of global venture capital but also in venture capital generally and in other management literature. Why are some venture capital firms more successful than others and how do they ensure this success?

The Resource Based View provides a compelling theoretical framework for analysing and determining the reasons why firms succeed or fail in the context of the emerging

venture capital markets in South East Asia. The data shows that the resources of the firm, in the case of the venture capital firm, its human resources are the most important element in its success. This includes not just the quality and experience of the management team but also how they employ their expertise through knowledge sharing and how they continue to improve their knowledge base by acquiring knowledge from external sources and through a process of continuous learning.

The successful firms in this study have excellent management teams, with wide experience and relevant expertise in their focus markets and industries. They also share their knowledge within the group and where this knowledge is inadequate they employ external sources to enhance this knowledge. They are also continually learning to improve their knowledge base. Finally, the evidence shows that management team independence is critical for success. The failed firms had very little independence. One firm had a very autocratic leader who makes all the decisions and another had to report to their headquarters even for investment decisions.

The literature review in section 2 showed that many researchers have determined that regional, national or environmental factors in the emerging markets of Asia have an impact on firm success. While we do not discount the fact that other factors can impact on firm success the data analysis shows that the difference between success and failure in the *venture capital firm* does not reside in external factors. The difference is within each firm, in its resource base. Thus such factors like the external shocks of the Asian Financial Crisis, September 11 terrorist attacks and the dotcom bust do have an impact on firms, but these factors affect all firms not just some firms. Hence any firm investing in the technology sector in Asia will have been affected by these factors, yet not all firms failed. In fact only a few failed and this failure can be traced back to internal factors, not external factors. How the firms handled these crises were dependent on the firm's human resources not just on external factors.

Hence the first conclusion is that the internal resources of the firm in the form of the Resource Based View provides one answer to our question of why some firms are more successful than others and how they sustain their success. They are successful because they have experienced, capable and independent management teams and they can sustain their success because they share their knowledge and are continually learning

about the industry to improve themselves. The firm's resources made the difference between success and failure.

Therefore we can conclude that our meta-proposition based on the Resource Based View is fully supported by our data and our in-depth analysis and provides a valid and supported answer to our research question. The next meta-proposition to consider is based on the core competence of the firm.

#### **7.4.2 Core Competence**

The second meta-proposition is in the area of the core competence of the firm:

***MP2: The Core Competence of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

The core competence theory is based on the skills and knowledge base of the firm, its process of collective organisational learning, the ability to deliver and execute critical processes and the process of communication with all levels of people in the firm. These are all elements that were found in our five propositions. This study shows that all the successful firms possess relevant skills and experience while the failed firms do not. Successful firms also have a process of continuous learning within the management teams.

Their previous experience in the venture capital industry also enables them to deliver and execute critical processes including investment decision making and strategising on their industry focus. The critical process of a venture capital firm is to make successful investments, manage their portfolios well and then successfully exit them either via a trade sale or an IPO. The successful firms have shown their ability to do this while the failed firms have not even been able to invest successfully.

Finally and importantly the successful firms share knowledge positively among the management teams. There are regular meetings to decide on firm strategy, make decisions on their industry and market focus and plan for the future. Thus successful firms have shown their competences and capabilities to do what is necessary to ensure

sustained success unlike the failed firms and this made the difference between success and failure.

Therefore we can conclude that our meta-proposition based on the Core Competence view is fully supported by our data and our in-depth analysis and provides a valid and supported answer to our research question. The next meta-proposition to consider is based on the dynamic capabilities of the firm.

#### **7.4.3 Dynamic Capabilities**

The third theoretical proposition is in the area of the dynamic capabilities of the firm. A combination of our five propositions has also shown that the dynamic capabilities view is relevant to our findings and our meta-proposition is:

***MP3: The Dynamic Capabilities of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

Firms that have dynamic capabilities have the following capabilities. Management must have the capacity to match the requirements of a changing environment by renewing the firm's competences based on its knowledge base and its capabilities. It does this by transforming the firm's internal and external organisational skills, resources and functional competences through a process of skill acquisition and learning.

We can see that the successful firms in our study are vastly experienced and have a wide knowledge base and skills set. They are also fairly independent and are able to make decisions when there are changes in the environment or their markets. The successful firms have been shown to track changes and trends in the market and have adapted to changes in their environment despite several crises in the last 8 years from the Asian Financial Crisis to the dotcom bust to 9-11. The failed firms however could not adapt to these changes and in the case of SBEM closed the firm after 9-11.

The successful firms adapted and changed and have continued to invest and exit successfully. They do this through a continuous process of knowledge sharing and learning and ensure that they have the necessary competences to succeed. They



acquire these competences through a process of formal and informal learning as well as by using external professionals. The successful firms have used dynamic capabilities to ensure continued success while the failed firms did not have the necessary capabilities to do so.

Therefore we can conclude that our meta-proposition based on the Dynamic Capabilities view is fully supported by our data and our in-depth analysis and provides a valid and supported answer to our research question. In the next section we shall briefly review the impact of the external environment on the success of the firm, as this has been one constant theme in the literature on global venture capital.

#### **7.4.4 Impact of the External Environment on Success**

The final point that needs clarification in relation to the research question was what impact regional, national or environmental factors in the emerging markets of South East Asia have on the firms' success, as this is one aspect many researchers have studied. This study has shown that some external environmental factors do have an impact on firm success. This includes the availability of dealflow, viability of exits in their investment markets, the networks of the partners and even the impact of external crises.

Two points have to be considered here. Firstly, while external factors can impact on firm success, they are not the most significant factor in success or failure. How the firm handles the external environment has less to do with the environment and more to do with the firm's internal resources, primarily its human resources. Thus firms with more experienced and skilled teams can overcome external problems better than firms with less experienced and less skilled teams. The successful firms have been more adept at this than the failed firms.

The three meta-propositions expounded here can provide an answer to how different firms handle these factors and why some are successful while others are not. As an example, even though the 9-11 attacks and the dotcom bust had a severe impact on technology investing, the superior core competencies of Walden, BCEA and H&Q still enabled them to continue investing in technology and continue to show positive results. The same cannot be said about SBEM and Transpac. This also applies to other factors.

Similarly when these crises started affecting investments, the dynamic capabilities of these firms meant that they were 'dynamic' in their ability to change their strategies and adapt their industry focus and they had the right 'competencies' to continue successful investments. For example, H&Q changed focus to invest in distressed companies after the Asian Financial Crisis, as there was an opportunity to do this. They were 'dynamic' in changing their focus and also had the capabilities to invest like private equity investing, something Transpac could not do. Transpac also changed focus to invest in distressed companies but did not have the capabilities to do so and failed.

The second point is that these external factors impact all firms equally in the market. Hence as all the firms were investing in the same region, South East Asia, the Asian Financial Crisis and 9-11 would have impacted them all equally, yet Walden, BCEA, H&Q and even MSC Venture Corporation continued to invest and exit successfully but SBEM and Transpac both failed. So external factors alone cannot make the difference between success and failure. The differentiating factor is the internal factor, the human resources within the firms.

In conclusion, the answer to the question of why some firms are more successful than others resides in the internal resources of the firm with three valid and supported meta-propositions as restated below:

***MP1: "The Resource Based View, encompassing the management's experience; expertise and knowledge base; knowledge sharing; market knowledge and continuous learning; and independence; is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia"***

***MP2: The Core Competence of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

***MP3: The Dynamic Capabilities of the Global Venture Capital firm makes a significant contribution to successful investing in the emerging markets of South East Asia.***

In the next section we shall consider a combination of these three meta-propositions into a single meta-proposition.

## **7.5 Consolidating the RBV, Core Competence and Dynamic Capabilities Meta-Propositions and the Success of GVC**

We concluded in section 7.4 that the success of GVC investing in the emerging markets of South East Asia resides in the internal resources of the firm and provided three meta-propositions based on three management theories, the Resource Based View, Core Competence and Dynamic Capabilities views. These three meta-propositions be can used either independently or jointly as propositions for firm success and later research can test them as possible hypotheses.

However, each of these meta-propositions also exhibits similar elements related to the internal resources of the firm, more specifically its intangible resources. As such it is also possible to combine these three meta-propositions into one meta-proposition as the following discussion shows.

The Resource Based View meta-proposition includes the following elements:

- ❑ quality and experience of the management team
- ❑ their expertise and knowledge base
- ❑ how this expertise is employed through knowledge sharing
- ❑ how management improves their knowledge base by acquiring knowledge from external sources and through a process of continuous learning, and;
- ❑ finally the independence of the management in making investment decisions

The Core Competence meta-proposition has the following elements:

- ❑ it is premised on the skills and knowledge base of the firm
- ❑ the ability to deliver and execute critical processes (this ability is improved through prior investment experience).
- ❑ the process of communication with all levels of people in the firm or what we can call knowledge sharing
- ❑ its process of collective organisational learning

The Dynamic Capabilities meta-proposition has the following elements:

- ❑ management must have the capacity to match the requirements of a changing environment (as shown by the SBEM case, the capacity of the management includes management independence)
- ❑ by renewing the firm's competences based on its knowledge base and its capabilities
- ❑ by transforming the firm's internal and external organisational skills, resources and functional competences (the ability to transform is improved with prior experience)
- ❑ through a process of skill acquisition and learning

Based on the above we can surmise the following:

- ❑ That the Resource Based elements of experience, skills and knowledge base are contained within the Core Competence of the firm as well as the Dynamic Capabilities view;
- ❑ That the knowledge sharing and continuous learning aspects of RBV are also contained both in the Core Competence and Dynamic Capabilities views;
- ❑ However, although the Dynamic Capabilities view aspect of the capacity of the management does have elements of independence, this view is not sufficient to cover independence and as the Core Competence view does not specifically mention independence, this element of independence needs to be separately mentioned in a combined meta-proposition.

Hence we can now develop a combined meta-proposition, which will include all the necessary elements of the findings in this section as follows:

**The success of Global Venture Capital investing in the emerging markets of South East Asia is positively associated with the Dynamic Capabilities and Core Competence of an Independent Management Team within the Global Venture Capital firm.**

This combined meta-proposition allows us to study other cases in emerging markets to determine whether new cases conform to our findings. Based on our findings however,

we have also discovered an important and new conclusion that can be developed into a new proposition for studying GVC.

The elements of experience, expertise and skills, knowledge sharing and continuous learning are related to a field of study now known as the Knowledge-based view or also known as "Knowledge Management". Kerssens-Van Drongelen et al. (1996) define knowledge as " . . . information internalized by means of research, study, or experience that has value for the organization". Davenport et al. (1998) describe knowledge as information combined with experience, context, interpretation, and reflection and knowledge production as comprising value addition to information. Grant (1995) states that knowledge comprises information, technology, know-how and skills and he believes that knowledge is "the key productive resource of the firm in terms of the contribution to value added and strategic significance" (Grant, 1995: 18).

Thus, knowledge includes all the elements of expertise and skills, knowledge learnt from prior experience, sharing of this knowledge with other members of the firm and also continuous learning to increase and improve the knowledge of the members of the firm. As our study shows, the three meta-propositions show the importance of these elements but there is now an increasing field of research into how this knowledge is utilised and managed for strategic advantage and this is known as Knowledge Management. In light of this, we shall now explore the possibility of a new meta-proposition for GVC investing based on Knowledge Management.

## **7.6 A New Knowledge Management View of GVC**

We have seen above that the three meta-propositions contribute answers to our Research Question and are valid based on the data, case studies and enfolding literature. However, the greater contribution of these three meta-propositions is that they exhibit elements of, and support, a Knowledge Management view that can provide us with a different approach to research on GVC. This approach can lead to a repositioning of GVC from the current dominant or classic view of GVC, which relies on the external environment or the Resource Based View, to a new view centred on Knowledge Management as a significant theme for GVC research.



Jarrar (2002: 322) defined knowledge management as "the process of continually managing knowledge of all kinds, to meet existing and emerging needs, to identify and exploit existing and acquired knowledge assets and to develop new opportunities". Wiig (1997: 6) states that the overall purpose of knowledge management is "to maximize the enterprise's knowledge-related effectiveness and returns from its knowledge assets and to renew them constantly". Peter Drucker brings us a more concise definition: "the coordination and exploitation of an organization's knowledge resources, in order to create benefit and competitive advantage" (Perseus Publishing, 2002, quoted in Call, 2005).

Knowledge assets or resources relate to the intellectual capital of the company which comprises the experience and expertise of their personnel as well as specific intellectual assets of the firm including patents, technologies, operational and management practices and even customer relations (Wiig, 1997). Knowledge management includes knowledge creation, which includes knowledge learning, research and development, and lessons learned to obtain new and better knowledge that will lead to improved competitiveness; and knowledge transfer, which includes knowledge sharing, deployment and distribution of knowledge and adopting best practices (Wiig, 1997, Jarrar, 2002). Knowledge Management is also "a term applied to techniques used for the systematic collection, transfer, security and management of information within organisations, along with systems designed to help make best use of that knowledge. In particular it refers to tools and techniques designed to preserve the availability of information held by key individuals and facilitate decision making and reducing risk" (Wikipedia, 2006).

Based on the above definitions, this thesis shows that Knowledge Management is relevant to GVC because of the issues of management team experience, skills, competencies and dynamic capabilities which relate to the information held by key individuals and decision making aspect of the definition, as well as the importance of continuous learning (knowledge creation) and knowledge sharing (knowledge transfer), which can be identified with the techniques and tools aspect of the definition of Knowledge Management. Hence the Knowledge Management view has the potential of being a new way of thinking about the success of GVC. We shall now explore the

Knowledge Management theme and show its relevance as a key meta-proposition for this thesis.

The Knowledge Management view focuses on knowledge as the most strategically important of the firm's resources and is an outgrowth of the Resource Based View (Grant, 1996). Spender (1996) states that it is the firm's knowledge and its ability to generate knowledge that is the core of a more epistemologically sound theory of the firm. Liebeskind (1996) believes that we are "moving towards an economy where competitive advantage will be determined by knowledge rather than by access to raw materials and cheap labour".

Whitehill (1997) called this the Knowledge Management view and identified three elements of a management team that are necessary for this view:

- the scientific or technical knowledge of the team members;
- their skills and experience of applying that knowledge and;
- the shared knowledge of the whole team built up from the experience of solving problems together.

The meta-proposition relating to the Resource Based View showed the importance of the experience of the team, their skills and knowledge base and the importance of sharing this knowledge with each other. The Core Competence meta-proposition illustrated the importance of skills and knowledge base, the organisational learning embedded within the management team (for example from past experience of solving problems together) and the ability of the team to deliver and execute critical processes by communicating with all levels of people in the organisation (shared knowledge). Finally, the Dynamic Capabilities meta-proposition referred to the importance of renewing firm competencies and skills, mutual and intertwined knowledge (shared knowledge) and skills acquisition and learning (for example from past experience of solving problems). Thus the three meta-propositions fulfil Whitehill's (1997) requirements for a Knowledge Management view and provide the basic impetus to use the elements within the three meta-propositions to form a single Knowledge Management view as the main contribution of this thesis. We shall consider this possibility by examining the area of knowledge management in relation to the three meta-propositions.

Grant (1995) states that "... knowledge is the key productive resource of the firm in terms of contribution to value added and strategic significance." He believes that the key consideration is the extent to which a firm is able to access and utilise the knowledge embedded within the management team and believes that the primary role of the firm is the integration of this specialised knowledge. Teece (1998) supports this belief and says that knowledge, competence and related intangibles are the key drivers of competitive advantage. This belief is also supported by Kogut & Zander (1993) who found that firms compete on the superiority of their information and know-how and their abilities to develop new knowledge by experiential learning. Based on the above, we can see that our three meta-propositions support the conclusions of these authors. The importance of knowledge embedded in the management team and their competence (i.e. supported by our findings for experience, skills and core competencies), integration of specialised knowledge (knowledge sharing and dynamic capabilities) and experiential learning (continuous learning) are all supported.

Spender & Grant (1996) state that the issue of knowledge transfer is important not only between firms but also within firms and this supports the knowledge sharing aspects of the meta-propositions. They also believe that knowledge integration has implications for organisational structure, the distribution of decision-making authority and the boundaries of the firm, addressing aspects of management teams and their independence in decision-making, thus relating to the proposition of management team independence. Finally Spender & Grant (1996) believe that "responding to the changes we see going on around us means bringing a better understanding of managerial and organisational knowledge and learning into a central place in the field's analyses and theories", alluding to one key element of our meta-proposition of Dynamic Capabilities – change and the management of change.

Gold et al. (2001) state that managers seeking to establish effective programs of knowledge management must balance the content of organisational knowledge with their capabilities to leverage knowledge. This suggests that not only is skills and capabilities important, just as important is the process by which the management team leverages this knowledge through such processes as knowledge sharing, continuous learning and managing change. This concept is also fully supported by all three meta-propositions. Knowledge Management is also especially critical during times of great

change especially during times of unplanned crisis or opportunities. The very unpredictability of change necessitates different management competencies and processes (Delargy et al., 2005). This supports the dynamic capabilities meta-proposition and shows that Knowledge Management and dynamic capabilities are important elements of management success.

In terms of knowledge and globalisation, Yli-Renko et al. (2000), found that there is a positive relationship between knowledge-intensity and international growth and also between foreign market knowledge and international growth and therefore they conclude that knowledge is a key resource for international growth. They state, "...the very knowledge-intensity of the firm's core resources may play an important enabling role in the internationalisation of firms". They define knowledge-intensity as "the extent to which a firm depends on knowledge inherent in its activities and outputs as a source of competitive advantage" (Yli-Renko et al., 2000:9). Knowledge intensive is similar to economists' labelling of firms as capital-intensive or labour-intensive. In a capital intensive firm capital has more importance than labour whereas in a labour intensive firm labour has more importance. By analogy Starbuck (1992) states that in a knowledge intensive firm, knowledge has more importance than all other outputs.

In studying the knowledge-intensity of multinational corporations, Davis et al. (2005) found that knowledge sharing and management systems and processes in large global companies need to be integrative and flexible including the ability to integrate local knowledge with the global knowledge of the corporation in order to be competitive, thus supporting the findings of Yli-Renko (2000).

In the case of venture capital firms, while they use capital and management and staff are labour, it is the knowledge that is resident within the firms that is the key to their success. Hence the knowledge-intensity of foreign venture capital firms is related to the levels of knowledge that are inherent within the managers of the firm, both the local managers and their regional and international counterparts. In the globalisation of venture capital firms, because venture capital is still new in emerging markets, the global firms have greater knowledge-intensity embedded in their internationally experienced managers and hence a greater competitive advantage and take advantage of this factor by investing successfully in emerging markets. The knowledge-intensity of venture capital



firms gives them a competitive advantage in globalising their firms, supporting the finding of Yli-Renko et al. (2000) that knowledge is a key resource for successful internationalisation. However, it is pertinent to note that not all knowledge-intensive firms are successful. Based on this study such knowledge-intensity must still be coupled with independent decision-making and knowledge sharing for the knowledge-intensity to flow to the local managers thereby enabling them to invest successfully. The successful foreign firms in our study effectively share this knowledge and build on their competitive advantage but the same was not found among the failed firms. Additionally the successful foreign firms are continuously learning thereby increasing the knowledge of the firm, something that is not done by the failed firms.

In the meta-propositions we have determined that the expertise and knowledge base of the managers and their experience as well as their core competencies are a source of competitive advantage (or a key aspect of their success). This fits with the definition of knowledge-intensity mentioned above and leads us to conclude that knowledge is a key resource for success in the globalisation of venture capital firms.

The premise of Knowledge Management is still quite rare in existing venture capital and GVC research. Schildt et al. (2005) studied the explorative and exploitative learning of technological knowledge amongst corporate venture capital (CVC) firms and show a relationship (albeit a weak one) between CVC investments and explorative and exploitative learning outcomes. Their findings show that learning and knowledge sourcing do play a role in the relationship between CVC firms and their investments. De Clercq & Sapienza (2005) explored the effects of venture capital firm experience and the venture capital firm – portfolio company knowledge overlap to discover how much learning venture capital firms achieve through their individual investments. They found that less experienced venture capitalists learn more from their portfolio companies and that extensive knowledge overlap limited learning. The main thrust of their research was in investigating knowledge exchange and learning in the venture capital firm – portfolio company interfirm relationship and this contributes to new insights on the Knowledge Management view in venture capital research. In Asia, Lin & Chou (2005) studied corporate governance mechanisms in the Taiwanese venture capital industry and they state that for venture capital managers to remain competitive they should adopt the concept of Knowledge Management in the process of information collection, seeking



help from consulting institutions and in the accumulation of specific knowledge from their personal working experience. They believe that Knowledge Management practices can accelerate business performance and cross-organisation performance between the venture capital firm and its investees. There is very little specific Knowledge Management based research in the field of venture capital but as the above three articles show recent researchers are willing to explore the use of Knowledge Management in this field, making this an area with great potential for future researchers.

As can be seen from the discussions above, the three meta-propositions all lend support to a more comprehensive knowledge-based view or as Whitehill (1997) called it a Knowledge Management view of the firm. Thus we can develop a single meta-proposition for this thesis as follows:

**“The Knowledge Management of the firm, primarily the ability of an independent management team to build and sustain a knowledge-based, competitive advantage based on the specialised knowledge of the team, their skills and experience in applying and sharing that knowledge and the ability of the team to continuously learn from their experience is positively associated with firm success in global venture capital investing in the emerging markets of South East Asia.”**

This discussion shows that Knowledge Management is a viable and relevant theme for the success of GVC and moves the research process from the classic view of ‘Institutions’, ‘Environment’ or ‘Resources’ towards a new area of research based on ‘Knowledge’.

We shall now proceed to the next section for a discussion on the conclusions and implications of this research and some suggestions for future research.

## 8. Conclusions and Implications

In the introduction in section 1, we defined global venture capital by adopting Aylward's (1998) version as "cross-border entry into emerging markets" and used this definition to explore an area of research in the field that is fairly under-researched. The objective was to explore the reasons why some global venture capital firms are successful in their international investments in emerging venture capital markets while others failed. Peng (2004) called this specific field of enquiry within the international business literature the "big question in international business research". He stated that, "What determines the international success and failure of firms?" is a fundamental question that will likely propel the future of international business literature and is one area of enquiry that will enhance the status and prestige of the field. Similarly, the question of what determines the international success and failure of global venture capital firms in the emerging markets of Asia is one area of research that can contribute much to the study of venture capital especially since globalisation of venture capital is a fast growing phenomenon in the world of business and finance.

Existing research, which I have earlier called the classic view of GVC, indicates that several factors have an impact on global venture capital investing. These include institutional factors like culture, politics and finance and to a lesser extent resource based factors such as the experience and expertise of the firm's managers. The main thrust of prior research is that the environment within which the firm operates has the greatest impact on firm success in global investing. However, while these studies show that different factors did impact on successful investing, *none of the studies explained why some firms invest successfully while others don't*. If the same factors impact all the firms equally, then the question that arises is why do some firms succeed while others fail? As this is a question that remains unexplained in the literature on global venture capital investing, this dissertation is a first attempt at answering that question.

Based on a study of both successful and failed global venture capital firms in South East Asia this dissertation identified three meta-propositions that contribute to the understanding of how to succeed in venture capital investing in the emerging markets of Asia. While these are important contributions, the key contribution however, is that these

three meta-propositions enabled us to develop a new **Knowledge Management** view of GVC investing. This new view shows that the classic view of GVC, which is based on 'Resources', 'Institutions' and the 'Environment', is not the only way of studying GVC. In fact this study shows that the classic view of GVC investing is not as relevant as previously thought and future research should move away from resources, institutions and the environment and instead should move towards Knowledge Management as the driver of GVC investment success.

This does not contradict the findings of other researchers in the field who identified the classic factors that impact on investment success. Those factors are still relevant, but the difference is that those factors affect all firms equally. Hence any firm that wants to invest in China needs to be aware of the legal and political institutional factors that will affect their investments but whether they are successful or not cannot be because of these factors. There have to be other reasons. This dissertation found that the difference between success and failure in global venture capital investing resides internally, within the firm. It is the knowledge that resides within the managers and in the firm and how this knowledge is managed, shared and utilised that makes the real difference between success and failure.

The meta-proposition of the Knowledge Management view suggests that GVC firm success is dependent on several factors. Firstly the global firm must have an independent management team with the capacity to make investment decisions independently of the headquarters. The firm must also have the ability to build and sustain a knowledge-based, competitive advantage based on the specialised knowledge of the team, their skills and experience. The firm must have the ability in, and processes for, applying and sharing that knowledge within the managers of the firm as this enables them to build a knowledge base within the firm and thereby create competitive advantages. Finally the firm must put in place processes for continuous learning so that they can acquire new knowledge and renew competences and capabilities especially in a changing business environment.

The research design adopted in this dissertation is an inductive, explorative, Grounded Theory methodology using case studies. This research design was adopted because the study of global venture capital is a relatively new area of research and as it was being

conducted in a new and emerging venture capital market in South East Asia an explorative study has the added benefit of enabling discovery of new insights. Also, data in this area is limited, making it more difficult to use traditional quantitative methods of enquiry, while researchers have indicated that in Asian culture venture capitalists prefer face-to-face interviews rather than having to fill up forms.

The second reason for this methodology is that theoretical development in this field is also relatively underdeveloped. The Grounded Theory methodology enables the discovery of new theoretical propositions for global venture capital investing and can thus contribute much more than traditional research. The final analysis does in fact bear testimony to this, as the Knowledge Management meta-proposition contributes new thinking to this field of research.

One final reason to justify this methodology is that to adopt the more conventional hypothesis development and theory testing approach would be to assume that the western model of global venture capital investing was necessarily the norm and therefore the benchmark for research in emerging venture capital markets. However, the approach to this dissertation is a desire not to assume the applicability of a western model of venture capital especially in the context of the emerging venture capital markets in South East Asia. The use of the Grounded Theory and case study methodology therefore fits comfortably within this assumption. Section 8.3 provides a discussion on the existence of a universal or global model of venture capital in light of the findings in this dissertation.

The research was conducted in South East Asia among firms that were based in Malaysia, Singapore and Thailand and invested in the greater Asian region, which included North Asia. In the research design six cases were examined in detail, three foreign successful firms (one each based in Malaysia, Singapore and Thailand), two foreign failed firms (both based in Malaysia) and one domestic successful firm (based in Malaysia). There were multiple interviews with multiple managers in each case and the interview data were triangulated with other documentary evidence. This format met all the requirements of both case study design as well as the Grounded Theory methodology.

## 8.1 Contributions of the Research

In line with the objectives of the dissertation, this research made several contributions to the field of global venture capital. The objective was to discover why some global venture capital firms were more successful than others in investing in the emerging markets of South East Asia and this study achieved its objectives. By achieving its objectives, it makes several contributions to the field.

Firstly it makes a substantial contribution to the methodological area of Grounded Theory and case study research. This dissertation has enabled the development of a detailed 'framework' for using case studies in Grounded Theory research. This includes the development of a new, integrated, process on conducting Grounded Theory research using case studies, which adopted many of the suggestions of the primary researchers in the field.

Secondly, in terms of a theoretical contribution, this research provides a new contribution in terms of a Knowledge Management view of GVC investing, thereby supporting some recent but as yet still new research in the field. Thirdly, it makes several practical contributions for venture capital firms operating in and investing in Asia specifically but also applicable to venture capital investing in general.

Additionally, this dissertation has shown that theories from other areas of management can make a valuable contribution to venture capital research. We have seen this in terms of the Resource Based View which has made the cross-over from management to venture capital but few other management theories have made this cross-over and that is a gap that needs to be filled by venture capital researchers, to bring venture capital research in line with other fields of research. Hence the additional contribution that this dissertation is making by incorporating the Core Competence and Dynamic Capabilities views into global venture capital research is a start in filling the gap in the research. By using these three meta-propositions it enabled the development of a Knowledge Management view of the firm, which is the most important element for firm success. The Knowledge Management view has been used in other areas of management but not in GVC research and this is also a gap in the research that needs to be filled. We shall now explore the three contributions in detail.



### **8.1.1 Methodological Contributions**

This dissertation makes a valuable contribution to the Grounded Theory and case study methodology, in particular a framework for future studies that use this methodology. While several authors offer suggestions and proposals on how to conduct research using Grounded Theory and case studies (Glaser & Strauss, 1967, Eisenhardt, 1989, Yin, 1994 and Locke, 2001), there is a lack of an all-encompassing framework to do this. Indeed, Grounded Theory is often thought of as a difficult and time consuming process without a defining framework to assist novice researchers.

For example, Partington (2000: 95) states that many doctoral students who start Grounded Theory research later abandon it because of its "bewildering complexity" and that in published management research there is "little evidence of the successful application of any precisely delineated prescribed approach". Backman & Kyngas (1999) state that the Grounded Theory approach is a time consuming and long process, one that often surprises researchers by its challenges. They also state that the literature does not contain many descriptions about the Grounded Theory approach as a process. Pandit (1996) believes that the Grounded Theory approach does not favour the novice researcher who is likely to find it more difficult than more conventional methodologies.

Using the Grounded Theory methodology in this dissertation has been a learning process, which confirms the validity of the statements above. It is not an easy methodology to use and while there are many suggestions and proposals there are very few frameworks for effectively adopting and using the methodology. Using the Grounded Theory methodology together with case studies compounds this as each methodology has its own requirements. Therefore, it has been necessary to come up with a new framework that creates a new flow and process for conducting Grounded Theory and case study research.

### **Challenges and Strengths of the Grounded Theory and Case study methodology**

In conducting this research several issues arise that will be of importance to future researchers. The first issue that confronts the researcher is the possibility of an information overload. Due to the open-ended format of Grounded Theory research the researcher can be burdened with an enormous amount of data, much of which may not

be of use in the analysis. In this dissertation for example, just using 6 cases alone created a dissertation that is 100,000 words long. The continuous analytical process required by Grounded Theory forces a researcher to look at many possibilities and this creates voluminous data. This is further compounded by triangulation, which adds much more data to the process. Sifting through this data to look for relevance can be a difficult and time-consuming process. Hence while 6 cases worked, if a researcher wanted to extend the process to much more than say 10 cases, then this methodology would not work, it would not be appropriate as the data and analysis would be extremely voluminous and complex.

Secondly, when there are several cases and multiple interviews, comparing and contrasting the data without a proper framework is difficult. The use of matrices and tables contributes significantly to the understanding and comparison of the data. Without the use of matrices comparison is difficult. Thus matrix analysis has been extremely useful in this study and worked well in making the analysis not just easier to conduct but also easier for readers to follow.

The contributions of the various researchers who used this methodology and provided guidance was very helpful especially Eisenhardt (1989), Yin (1994) and Locke (2001). However, these researchers each dealt either with Grounded Theory or Case studies but not a combination of both, which made the need for a unifying framework necessary. The unified framework and methodology used in this dissertation has resulted in new theoretical findings that were not available in this field before this study. Hence as an exploratory methodology, Grounded Theory using case studies is a very satisfactory and fulfilling methodology.

#### **New Framework for Grounded Theory and Case Study**

As mentioned above, this dissertation has enabled the creation of a very useful generic framework for Grounded Theory by case studies research. This framework is represented by Figure 8.1 below (following page), which is a reproduction of Figure 4.1 used earlier. This framework offers a clear 'flow' for future researchers to follow. It consolidates the different proposals and suggestions into a clear format for Grounded Theory and case study research.

The framework has five separate sections that create a process flow to the methodology. Thus the first section is on developing concepts and categories, as this is the first requirement of Grounded Theory. This is followed by 'within case pattern matching', which is a combination of Grounded Theory and Case study analysis. Pattern matching is a requirement of Grounded Theory while the within case analysis is part of the case study process recommended by Eisenhardt (1989) and Yin (1994). The third section is the 'cross-case pattern match', which allows the researcher to match patterns between the different cases, thus creating findings that are robust and more generalisable. The fourth section deals with the need to generate propositions. This is done via the shaping of propositions from the cross-case pattern matches, matching the propositions to existing literature and finally reaching closure through theoretical saturation, a Grounded Theory concept to ensure that enough data has been collected to enable the creation of robust theory or meta-propositions. The final section deals with the formulation of meta-propositions, thus completing the research process.

This framework is an easy to follow process that can be used by other researchers, not only in this field but also in any field that uses a Grounded Theory by case study analysis, as it is in fact a generic process.

### **Matrix Analysis**

The use of matrix analysis for single data (interviews) followed by meta-analysis for triangulated data (documentary evidence, etc.) also strengthens the validity of the results. Matrices are also a valuable tool for matching the patterns that have been discovered in the data in terms of the categories and concepts found in the Grounded Theory methodology. Matrices allow the researcher to consolidate data for easy comparison, thus easing the 'complexity' of the data and allowing the process of discovery to proceed in a less time consuming manner. By simplifying the process and making comparison easier, it allows the researcher to look for and find data that corroborate or contradict findings. It also provides a clear 'view' of the data for external reviewers and readers.

The framework and methodologies that have been used in this dissertation also allow future researchers to follow the analysis along the audit trail and enable researchers to use the same methodology for similar research in different territories or regions. This

methodology simplifies to some extent the Grounded Theory and case study methodology for future researchers and adds the 'process', which Backman & Kyngas (1999) state is missing in Grounded Theory research.

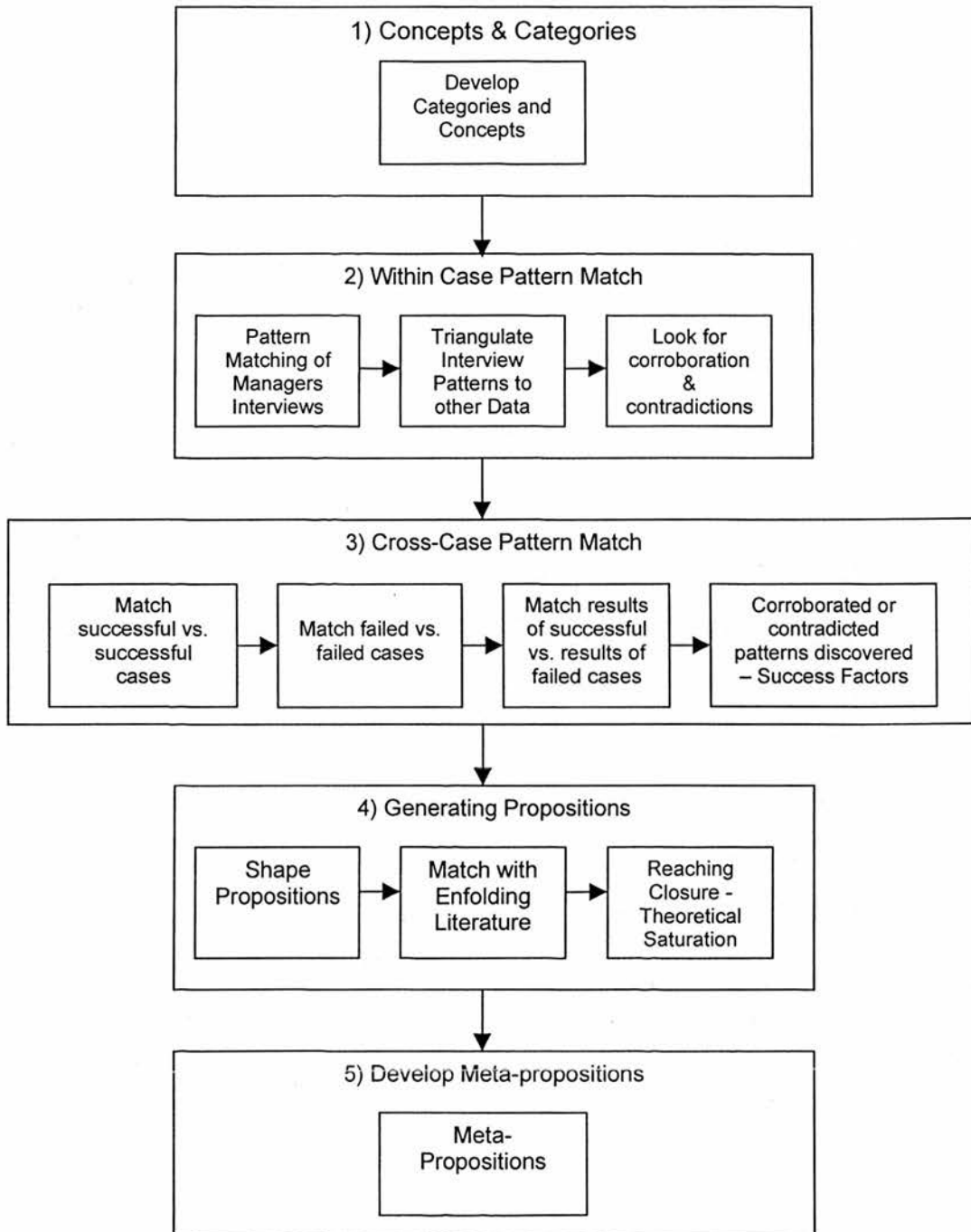


Figure 8.1: Grounded Theory with Case Study Analysis Process



### **8.1.2 Theoretical Contributions**

There are two particular limitations in the theoretical aspect of global venture capital investing. Firstly, theories are limited and secondly none of the existing theories specifically explore the area of global venture capital firm success and failure and fewer still in the Asian emerging venture capital markets context.

The two main theories in this field are Institutional Theory and the Resource Based View. In a recent paper that synthesises research in the area of institutional theory and global venture capital investing, Bruton et al. (2005: 738) examine 'how the institutions in the different locales impact venture capital as it spreads from one country to another'. Their objective was not to explain the level of venture capital activity in different regions of the world, but rather to gain a deeper understanding of the way venture capital firms are organised and behave around the world. That has been the basis of research in institutional theory and global venture capital, an emphasis on the macro aspects of venture capital firms but not on the micro aspects, on why they are successful or why they fail. Research on the Resource Based View has also been quite narrow and mostly covers the need for experience, skills and venture capital specialists. This dissertation extends the theoretical base of the literature in this field and makes a significant contribution towards the theoretical understanding of global venture capital success and failure in terms of the Knowledge Management view of the firm.

### **A New Knowledge Management View of GVC**

The Knowledge Management view focuses on knowledge as the most strategically important of the firm's resources. Hence, unlike the classical view, it is not the environment or the resources of the firm, but the specialised knowledge that resides within the firm that is the key to firm success. As stated by Liebeskind (1996) we are moving towards an economy where competitive advantage will be determined by knowledge rather than by access to raw materials or cheap labour (resources) or elements of the environment within which the firm operates.

The discussion in section 7.6 showed that firm success is based on the ability of the management team to develop techniques for acquiring, managing and sharing

information and knowledge within organisations, along with systems designed to help make best use of that knowledge. The management team is imbued with experience and skills which make up the knowledge of the team and firm success depends on their ability to use and share this knowledge, to facilitate decision making and reducing risk and to obtain competitive advantages in GVC investing. The firm that best manages the knowledge of the firm and its managers is the firm that will be most successful.

In the cases that we studied, the successful firms had experienced managers with high level of skills and domain knowledge in their investment areas. They also managed this knowledge well and shared it among the managers through several processes of knowledge sharing including through regular meetings, using specialist managers to evaluate investments and through obtaining knowledge from multiple sources. These firms also had in place processes for continuous learning, to acquire new knowledge and skills. The failed firms had inadequate skills and domain knowledge, did not share knowledge amongst the management teams and did not build competitive advantages using the firm's knowledge base.

This dissertation makes a substantial contribution to the field of global venture capital in terms of a new Knowledge Management view which provides us with valuable answers to our research question and enabled us to further our theoretical understanding of why some firms are more successful than others in global venture capital investing in the emerging venture capital markets of South East Asia. Additionally this dissertation also provides several practical contributions to practitioners in the field of global venture capital as follows.

### **8.1.3 Practical Contributions**

The Knowledge Management meta-proposition provides considerable practical contributions to venture capital firms that wish to globalise. By taking this proposition into consideration in their globalisation strategy, firms have a greater propensity for success and can avoid some of the causes of failure that was seen in the cases in this study.

The first implication for firms is on the selection of highly experienced partners and senior managers because such managers will be imbued with higher levels of knowledge in venture capital and successful investing. The findings of this research

show that all the successful firms had highly experienced partners and managers. All four successful firms had partners or senior managers with an excess of 10 years venture capital experience. In contrast the failed firms had zero venture capital experience in one firm and the other firms had one manager with venture capital but not private equity experience, the new business of the firm. Hence his venture capital experience by his own admission was irrelevant to the firm's new industry focus. The successful firms also had managers with high levels of industry and domain experience, another important criterion. Thus to ensure success in the firm's globalisation, headquarters must ensure that the senior managers of the regional firm have high levels of both venture capital and industry experience.

The second implication is that the partners and senior managers must have relevant skills and a wide knowledge base within their industry domain. This is evident in all the successful firms in this study while the failed firms demonstrated a lack of such skills and knowledge base. It is also pertinent to note that technological and economic changes do happen especially in the fast paced technology industry, yet our study shows that partners and senior managers with relevant domain knowledge and skills have been able to manage the changes and crises and continue to invest and exit successfully.

The third implication is on the sharing of this knowledge among the managers. The evidence shows that knowledge sharing is another important criterion for success. Hence, firms must have procedures or processes for knowledge sharing, including regular meetings to discuss strategy, industry and market focus, long term planning and trend setting. There could be other forms of knowledge sharing but evidence from this study shows that regular, planned face-to-face meetings are very important. Also, firms must be careful to ensure that there is actual knowledge sharing and that the managers do not wilfully hold back information or knowledge due to rivalry among managers. The group's interests must override personal glory and sharing must be in the group's interest. One of the failed firms in this study had a poor structure where each office was competing against the other leading to the withholding of information among partners and ultimately the failure of the group as a whole.

Fourth, the findings also show that continuous learning is a necessary ingredient for success. As evidenced by the successful firms in this study continuous learning plays an

important role in enhancing the skills and knowledge of the team. Thus firms must set in place procedures and processes that enable the team to learn and increase their skill sets and knowledge base. This includes learning from external experts and formal learning programs.

Finally the headquarters must endow their regional managers with adequate independence to make knowledgeable investment and strategic decisions. Similar to multinational corporations giving their subsidiaries sufficient autonomy to run their operations, global venture capital firms also have to give the partners and senior managers of their regional offices sufficient independence to make critical decisions. The regional managers will have specialist local knowledge, which may not be available to the managers at the headquarters, thus they must be given the independence to make decisions based on their local or specialised knowledge. The successful firms in this study show evidence of such independence while the failed firms show no such independence.

The Knowledge Management view illustrates the point that the knowledge that resides within the firm's managers and the firm's ability to generate knowledge is the main factor that leads to the firm's success. The practical contribution of Knowledge Management in the globalisation of venture capital firms is as follows:

- ❑ Ensure that the managers and partners of the firm have the required technical and management skills and knowledge in their relevant domain
- ❑ The firm must also have processes in place to access and utilise the knowledge embedded within the management team. The primary role of the firm is the integration of this specialised knowledge
- ❑ The managers must also have the ability and skills to apply this knowledge within their investment domain and thereby build competitive advantages
- ❑ The firm must therefore ensure that the managers have wide venture capital and industry experience as this experience is necessary to ensure they are able to apply the firm's knowledge adequately
- ❑ The firm must ensure that there are procedures and processes in place to share the knowledge that resides within the firm and its managers. An inability to share



the firm's knowledge can result in poor decision making and increases the chances of failure

- As firms compete on the superiority of their information and know-how, their ability to develop new knowledge by experiential learning is essential for success. Hence the firm and managers must have procedures to enable managers to increase their knowledge through continuous learning.
- Managers must also establish effective programs of knowledge management and balance the content of organisational knowledge with their capabilities to leverage that knowledge
- Finally Knowledge Management is especially critical during times of great change especially during times of unplanned crisis or opportunities. The very unpredictability of change necessitates different management competencies and processes as well as experience. Hence the firm must not just have knowledgeable managers but must also ensure adequate diversity and varied experience among the managers.

## **8.2 Limitations**

This thesis has met its objectives of exploring the reasons why some global firms are successful in investing in three emerging venture capital markets in South East Asia by developing a new Knowledge Management meta-proposition to explain this success. However, there are several limitations in this dissertation that need to be highlighted.

Firstly, one could question the number of cases that were used in the empirical study and query whether they were sufficient for a study of this type. Six cases were selected on the basis of theoretical sampling to ensure that they fit the needs of this dissertation. This is very much in accordance with the case study methodology as prescribed by Yin (1994) who stated that even one detailed case study would be sufficient for theoretical sampling. Also, the number of cases fits the range suggested by Eisenhardt (1989), which was a number between 4 and 10. Hence, methodologically the number of cases is sufficient. In fact even with just 6 cases, the amount of analysis required was considerable.

However, it would have enhanced the findings if it were possible to find at least one failed firm each in Singapore and Thailand. This would have given us greater insight into



causes of failure. It was however difficult to find failed cases as managers of failed firms seldom want to talk about failure and getting an interview would be difficult. Two cases would be pertinent. The first is Transpac Singapore, where two requests to speak to the Vice President currently in Singapore were politely declined. The second is Techpacific a Hong Kong firm, which closed its Malaysian and Singaporean offices in 2001. While one manager from Malaysia agreed to be interviewed the others had left the country and could not be traced. Hence the one interview was disregarded for this study, as corroboration was not possible.

The second limitation was that the interviews were only conducted with managers at their Asian offices. It would have enhanced the findings if interviews could have been conducted with managers at the parent firms, but distance and cost was a barrier. For example the headquarters of Walden was in Silicon Valley, H&Q was in Hong Kong and BCEA only had a loose relationship with its headquarters in the Netherlands. Transpac also had its headquarters in Hong Kong while SBEM's parent office, Softbank, is in Japan. Thus distance limited access to the parent offices. It was also difficult to get access to some of the headquarters managers as attempts to get an interview with Lip-Bu Tan of Walden failed as he travelled globally and it was not even possible to set a meeting when he was in Malaysia.

Even within the current cases it was difficult to get multiple interviews with the managers, as they were always "on the go". For example, it took 4 months of persistent emails and telephone calls to Peter Chan of BCEA just to get a date for the interview. The meetings were cancelled on several occasions due to pressure of work. Even in Thailand the actual interview took several weeks to fix and despite making a special trip to Bangkok for the interview it was cancelled as Mr. Virapan was called away for urgent negotiations. It took several calls and hours on the telephone with his secretary just to get another time for the interview. This will be a problem for future researchers as top-level managers of venture capital firms are not easy to tie down for meetings and in this dissertation for each of the cases the top-level managers were interviewed. Multiple interviews with the managers would have further enhanced the data but this is not always possible.

Another limitation of the findings is that the cases were from three emerging Asian venture capital markets, Malaysia, Singapore and Thailand but although these were emerging venture capital markets, the three countries were not homogenous as each was at a different level of economic development and this could have had an impact on the firms located there and their investment strategies. This in turn could have affected the findings, but this aspect was not considered in this dissertation. However, finding countries in Asia within close proximity to each other at the same level of economic development would not be easy in Asia. Singapore would be at a similar level to Taiwan and Korea but distance and cost would have been a problem for a PhD research.

In terms of the findings, they were based on firms with different parentage, from the US (Walden and H&Q), Holland-Britain (BCEA), Hong Kong (Transpac), US-Japan (SBEM) and Malaysia. Being from different geographical regions could also have an impact on their strategies and operational effectiveness and hence again as they are not homogenous there could be comparative differences between the firms. It would have been ideal to study firms at least from similar backgrounds for example US firms or European firms, although even then there could be some differences. These possible differences were not taken into consideration in the dissertation.

Another limitation is that although this study was conducted among firms in three emerging venture capital markets in South East Asia, it may not be generalisable to other emerging markets like Eastern Europe or South America. Thus the findings should be taken as limited to an Asian context until further similar studies are conducted in other emerging markets.

### **8.3 Is there a Global Model for venture capital?**

One issue that was discussed briefly in the introduction in section 1 was the issue of a global model for venture capital and the fact that researchers in global venture capital often adopt or use the US model of venture capital investing as a Global Model (Bahn et al, 2002, Leeds & Sunderland, 2003). However, many, like Megginson (2004) and Leeds & Sunderland (2003), do recognise that this is primarily because of the lack of a Global Model. In fact Megginson (2004) concludes that there is no integrated model for global venture capital and that none is likely to emerge in the foreseeable future. He based his conclusion on the fact that most national markets remain segmented and on the

differences in legal systems and regulatory environments. This view finds extensive support among other researchers like Avnimelech (2004), Bruton et al. (2002b) and Leeds & Sunderland (2003).

Aylward (1998) also found that there are many differences in regions and among venture capital firms that makes a generic model difficult to formulate. Regional differences include different stages of economic growth and different government policies and among firms differences in fund sizes, governance structures and even the policies of the fund's investors. Bruton et al. (2002b) have also found that institutional forces differ among regions including laws, regulations and even cultural norms, making a model difficult to formulate. Even when institutions, policy measures and regulations are modelled on the US like in Japan, venture capital in that country has evolved in an entirely different way compared to the US (Kenney et al., 2004).

Change is also a major issue for venture capital firms not only economic change but also technological change especially in fast moving industries like the Internet, biotech and information technology. Acquiring and having adequate knowledge to manage change is also an issue among the cases in this study, as the successful firms all managed to overcome crises and continue to prosper while other firms like SBEM blamed the crises for their failure. Would it be possible to develop a model to manage change globally? Based on this dissertation it would appear that this would be a major problem even for large global venture capital groups. Despite SBEM being part of the Softbank group, a major venture capital investor in the US and Japan, the firm still failed in South East Asia.

In terms of the findings in this dissertation, we have seen that there are many differences even among global firms that invest in similar markets. The findings of this research show that different firms have different internal dynamics and structures making it difficult to employ a global model for every firm. Knowledge Management and human resources can differ in so many ways and even when there are some similarities for example in having regular meetings among regional offices to share information and develop group strategies the system can fail when regional or personal rivalries or even styles of leadership impact negatively on the firm. Transpac for example had regular

meetings but rivalries meant meetings were more for networking purposes rather than for formal planning and strategising.

Despite this there can be an argument that it may be possible to develop a global venture capital model based on the Knowledge Management view. This dissertation has however only scratched the surface of the Knowledge Management view and GVC and as such much more research needs to be done before this can be stated as a fact. It is however an intriguing possibility and certainly one avenue for future research.

It is also interesting to note that none of the 14 respondents in this dissertation believed there was or could be a global model of venture capital because of the many differences cited above and mentioned by the respondents as well. Also when we add the human component to this it will make a global model even more difficult to develop. Even if we attempt to develop a global model around the Knowledge Management view, human frailties and differences will make it an extremely fragile model.

Hence based on both the institutional factors that many researchers mention and the internal firm aspects of this dissertation, the only viable conclusion therefore is that a global model of venture capital investing is not a viable proposition at this moment but it would be remiss to state that such a model is not at all possible in the future.

#### **8.4 Suggestions for future research**

This research has identified many different opportunities for further research. Firstly this research has endeavoured to answer Peng's (2004) "big question" in international business research on "What determines the international success and failure of firms?" in this case of global venture capital firms. As there has been very little research in this important area of venture capital the Knowledge Management meta-proposition offers a start to future researchers in determining not just the success of global venture capital firms but venture capital firms in general. It is time to look beyond the environmental theoretical framework of what affects venture capital investing into the "why" and "how" venture capital investing can be successful. This dissertation provides compelling reasons for looking within the firm and not just outside it for valid reasons for success or

failure and brings it in line with entrepreneurship and international management literature.

In theoretical terms researchers could now use the Core Competence, Dynamic Capabilities and Knowledge Management views to study venture capital firms, thereby extending management theory into venture capital research and enhancing venture capital research generally. This crossover of management theory into venture capital theory provides future researchers with plenty of interesting research opportunities. For example what core competencies or knowledge is required for investing in particular industries or markets or countries. How do managers handle rapid changes in the investment environment, how do they tackle crises, who handled it best and why, and what should firms do in different types of crises? Do Core Competence or Dynamic Capabilities impact managers of venture capital firms at all and do they impact firms in developed markets differently from emerging markets. How do managers manage the varied knowledge and expertise embedded within the firm and what processes are necessary to share this knowledge among the different offices or managers. These new theoretical frameworks in venture capital research open up venture capital research to other possible management theories and can enhance venture capital research in general and global venture capital research in particular.

Future researchers can also use the Knowledge Management view to determine by other means, for example quantitatively, whether the findings of this dissertation are valid. Are firms successful mainly because of their knowledge resources as discovered here or are extraneous factors more important? Thus future researchers have an opportunity to prove the correctness of the findings of this dissertation.

There are also some unanswered questions in relation to this research. For example, this research seems to indicate that venture capitalists place more importance on the knowledge aspects of management yet the issue of value added, the contribution that venture capitalists ostensibly provide to their investees (as shown in the venture capital process in Figure 1.1 above) does not seem to play an important role in the success of the firms that were part of this study. Does this mean that value added is not an important aspect of the venture capital process or does this only mean that emerging



market venture capitalists do not think it is as important as their counterparts in the West?

Additionally the managers in this study do not mention the importance of their ability to screen and value their investments. Deal valuation can have a significant impact on the final return on investment, yet none of the managers appear to deem their knowledge and skills in deal screening or valuation as particularly important in firm success. Knowledge Management will cover their knowledge and skills in screening and valuing deals but this was never made explicit by the respondents. Future researchers should explore this aspect of Knowledge Management and its relevance to firm success.

Much more research using the Knowledge Management view can be done in the field of GVC. This is still a very new proposition in this field and very few researchers have used it in venture capital and GVC research, so research in this theoretical stream is ripe for greater analysis. It is hoped that this is but the beginning of a fruitful stream of research in this area.

Methodologically, the detailed Grounded Theory and case studies framework that has been developed here can be utilised for other explorative research not just in global venture capital research but also in general venture capital research and management research generally. The flow chart in Figure 8.1 on the Methodological Process provides a guiding framework for future researchers who wish to use a Grounded Theory and case study methodology in their research.

This dissertation has explored the use of new methodologies and new theoretical strands for global venture capital research and has opened up the field to future researchers and thus provides an opportunity for future researchers to enhance and expand the field of global venture capital research.

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# Appendix A1 – Developing Categories from Interviews

DEVELOPING CATEGORIES FROM INTERVIEW DATA - ALL FIRMS						
Category/Firm	A) Barings - BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	E) Softbank - SBEM	F) Transpac Capital
	(i) Intangible Resources					
a) Management Team Experience	Strong support	Strong support	Some support	Strong support	Strong support	Strong support
b) Expertise & Knowledge Base	Strong support	Strong support	Some support	Strong support	Strong support	Strong support
c) Knowledge Sharing	Moderate support	Strong support	Strong support	Strong support	Strong support	Strong support
d) Market Knowledge & Continuous Learning	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
e) Independence of Management Team	Strong support	Moderate support	Strong support	Moderate support	No support	Strong support
	(ii) Dealflow					
a) Identifying and securing deals	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
b) Availability of deals in the market	Strong support	Strong support	Moderate support	Moderate support	Strong support	Strong support

(iii) Exits									
a) Viability of Exits in the Market	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support	Valid Category	
b) Depth of Capital Markets	Strong support	Moderate support	No support	Strong support	Some support	Strong support	Strong support	Not a Valid Category	
c) Structural Issues relating to capital markets	Strong support	No support	Some support	Strong support	No support	Strong support	Strong support	Not a Valid Category	
(iv) Networks									
a) Value of Networks	Strong support	Strong support	Moderate support	Strong support	Strong support	Strong support	Strong support	Valid Category	
b) Networking Skills	Moderate support	Strong support	Some support	Some support	No support	No support	No support	Not a Valid Category	
c) Value of Relationships	Some support	Strong support	No support	Some support	No support	No support	Some support	Not a Valid Category	
v) External Shocks									
a) Dotcom Bubble, Asian Crisis, 9-11	Strong support	Some support	Moderate support	No support	Strong support	Strong support	Strong support	Not a Valid Category	
(vi) Other Categories									
a) Political issues	Some support	No support	No support	Some support	No support	No support	No support	Not a Valid Category	
b) Government Policy / Support	No support	Some support	No support	Moderate support	Some support	Some support	Some support	Not a Valid Category	
c) National education capability	No support	No support	No support	Some support	Some support	Some support	No support	Not a Valid Category	
d) Legal, Regulatory & IP issues	Some support	Some support	Some support	Moderate support	No support	No support	Some support	Not a Valid Category	

e) Corporate Governance	Some support	Some support	No support	Some support	No support	No support	No support	Not a Valid Category
f) Cultural issues	Some support	No support	Moderate support	Moderate support	No support	Some support	Some support	Not a Valid Category
g) Market liberalisation	Some support	No support	No support	No support	No support	No support	No support	Not a Valid Category
h) Economic growth/ cycle	No support	Some support	Some support	No support	No support	No support	No support	Not a Valid Category
i) Market size	No support	Some support	Some support	Some support	No support	Some support	Some support	Not a Valid Category

## Appendix A2 – Developing Categories from Cross-Case Analysis of Interview Data

Developing Categories from Cross Case Analysis of Interview Data						
Category/Firm	A) Barings - BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	E) Softbank - SBEM	F) Transpac Capital
	(i) Intangible Resources					
a) Management Team Experience	Strong support	Strong support	Some support	Strong support	Strong support	Strong support
b) Expertise & Knowledge Base	Strong support	Strong support	Some support	Strong support	Strong support	Strong support
c) Knowledge Sharing	Moderate support	Strong support	Strong support	Strong support	Strong support	Strong support
d) Market Knowledge & Continuous Learning	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
e) Independence of Management Team	Strong support	Moderate support	Strong support	Moderate support	No support	Strong support
	(ii) Dealflow					
a) Identifying and securing deals	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
b) Availability of deals in the market	Strong support	Strong support	Moderate support	Moderate support	Strong support	Strong support
	(iii) Exits					



a) Viability of Exits in the Market	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support	Strong support
b) Depth of Capital Markets	Strong support	Moderate support	No support	Strong support	Strong support	Strong support	Strong support	Moderate support
c) Structural Issues relating to capital markets	Strong support	No support	Some support	Strong support	No support	Strong support	Strong support	Moderate support
<b>(iv) Networks</b>								
a) Value of Networks	Strong support	Strong support	Moderate support	Strong support	Strong support	Strong support	Strong support	Strong support
b) Networking Skills	Moderate support	Strong support	Some support	Some support	No support	No support	No support	Some support
c) Value of Relationships	Some support	Strong support	No support	Some support	No support	No support	Some support	Some support
<b>v) External Shocks</b>								
a) Dotcom Bubble, Asian Crisis, 9-11	Strong support	Some support	Moderate support	No support	Strong support	Strong support	Strong support	Moderate support
<b>(v) Other Categories</b>								
a) Political issues	Some support	No support	No support	Some support	No support	No support	No support	Some support
b) Government Policy / Support	No support	Some support	No support	Moderate support	Some support	Some support	Some support	Some support
c) National education capability	No support	No support	No support	Some support	Some support	No support	No support	Some support
d) Legal, Regulatory & IP issues	Some support	Some support	Some support	Moderate support	No support	No support	Some support	Some support

e) Corporate Governance	Some support	Some support	No support	Some support	No support	No support	No support	Some support
f) Cultural issues	Some support	No support	Moderate support	Moderate support	No support	No support	Some support	Some support
g) Market liberalisation	Some support	No support	No support	No support	No support	No support	No support	Some support
h) Economic growth/ cycle	No support	Some support	Some support	No support	No support	No support	No support	Some support
i) Market size	No support	Some support	Some support	Some support	No support	No support	Some support	Some support

## **Appendix B**

### ***INTERVIEW TRANSCRIPTS***

The following transcripts are highlighted to show their relevance to the categories and sub-categories of this Dissertation.

The following highlights and coloured texts are used.

#### **Legend:**

**Highlight = Experience**

**Highlight = Expertise & Knowledge Base**

**Highlight = Knowledge Sharing**

**Highlight = Market Knowledge & Continuous Learning**

**Highlight = Management Independence**

**Text = Dealflow**

**Text = Exits**

**Text = Networks**

REF NO: A1

RECORDING – NO

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Yong Thian Sze

DESIGNATION: Investment Partner

FIRM NAME: Baring Communications Equity Asia Ltd (BCEA)

DATE OF INTERVIEW: 15-10-2004

START TIME: 4.15 pm END TIME: 5.35 pm

PLACE OF INTERVIEW: BCEA Office, Singapore Land Tower, Singapore

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### TRANSCRIP OF THE INTERVIEW

#### 1) Background

##### 1.1) BCEA

The firm came to Asia in 1996 wanting to replicate what they did successfully in Europe in 1993/1994. They were fairly successful in Europe in the Telecommunications, Media and Entertainment industries and wanted to replicate this in Asia. They felt that Asia was moving in the same direction in 1995/96.

The market liberalisation in Asia in the telecommunications industry also was an attraction to them. A further attraction to invest in this industry was the convergence of new technologies especially in the digital, telecommunications and interactive fields.

Furthermore the European market was starting to consolidate and there were less opportunities as the market started to mature. The communications infrastructure also had been built so there were fewer opportunities in that area.

However the content industry was starting to grow for example in online travel with companies like C-Trip of China (funded by Softbank).

##### 1.2) New Fund

They have just set up a new fund for Asia. Non-industry specific and it will invest in late-stage and pre-IPO companies, as there is now a window of opportunity to invest and take the companies to market.

Focus area is still Asia because of the current depth in the capital markets especially in Singapore, Korea, Greater China (including Hong Kong & Taiwan), Malaysia and Thailand.

Partners are confident because of the knowledge base within the firm and their expertise in the markets and industries. They can also leverage on their offices in Singapore (HQ), Taipei, Beijing, Seoul and soon Shanghai.

Focus will be 60% Greater China, 10% Korea & 30% Asean.

## 2) Success

### 2.1) Firm Success

The firm's success is measured by what is delivered to investors or what is promised. If the promise is fulfilled then the firm is considered successful.

In these terms, BCEA has gone through cycles because of the Asian crisis, Nasdaq bubble and 9-11 so returns have been so-so (NB: could not give an exact figure). However the fact that "we are still here" is a sign of success in spite of the difficult times.

### 2.2) Personal Success for the VC

If the Company they invested in grows to be a recognised name that is a measure of personal success.

Also if they deliver value to their investors and investors are more willing to re-invest.

When this happens, their personal profile also gets better.

## 3) Success/Failure Factors

### 3.1) Key Factors

The key decision for them to invest is the availability of an exit.

There must be an active capital market for either an IPO or a Strategic Acquirer available. BCEA avoids markets where capital markets are not active and exits are weak. This is the first and most important criterion for investments, which is why they avoid some markets like Vietnam and the Philippines, which do not have a viable capital market.

Other factors taken into consideration are:

- a) Political and sovereign risks of the country
- b) Corporate Governance within the firm
- c) Quality of Management
- d) Quality of the cash flow
- e) Quality of the business

In China for e.g. there is a higher legal risk and corporate governance issues so they pay special attention to these issues in structuring deals.

### 3.2) Culture

Culturally, "Guanxi" is no longer a key factor. It is important but not the "be all" of investing. Political connections do not make a company successful. For example the largest online gaming company in China didn't have any connections before, he was just a regular entrepreneur. But now he has connections because he is successful.

Even for their firm, it is more important for their investment partners to have "on the ground" presence, to know the market and the players. [Note: This is also an important point for Networks].

Their "roots are deep".



### 3.3) For the Firm

All the above are important, but more important is the ability of their investment partners to "smell out a deal". To do this they need to network, they must have the skills and experience. [Note: This is also a relevant point for Dealflow].

## 4) Investment Strategy

Every fund will have a different strategy. For BCEA there is a window of opportunity in their chosen industries. There is a gap in the market. So they are able to add value to the market.

However, after 9-11 there was a meltdown in the markets.

### 4.1) Regional Strategy / Regional Model

They have a similar strategy across Asia (i.e. to focus only on the selected industries).

But tactics differ in each market and they focus on particular issues.

For e.g. in China there are issues in Corporate Governance, use of funds and exits.

In Singapore & Malaysia legal issues are good so they are more flexible.

Each market or country has different regulations so they adopt their tactics to the peculiarity of the market. For e.g. regulations in Korea do not allow a change in ownership 6 months before an IPO, so they have to structure the deal accordingly. [This is because as VCs they may sell shares pre-IPO in private placements, or convert one type of security e.g. debentures or Preference shares to ordinary shares or even hold the shares in a particular fund which is then transferred to another holding company prior to IPO to take advantage of tax benefits, etc. Hence this rule requires a different structure so that they can do this].

They depend very much on their people on the ground to look at all these issues.

## 5) Transferability of Models

BCEA runs autonomously. Previously they used to have a common Investment Committee and an Advisory Committee for all their global funds, which makes the final decision on the deals but this is no longer the case. ING-Barings is now only an investor in the fund & the partners make all the decisions and have their own Investment Committee.

The issue of transferability does not therefore arise. If necessary they do call their fellow fund managers for opinions, but not for decision making or strategic planning.

## 6) Global Model of VC

This issue does not arise in BCEA because of their fund structure and independence.

## 7) Dealing with Investees

BCEA does not take a "portfolio approach" to investing. They would invest in a maximum of 15 companies for a US\$ 100 million fund.

They always identify a role for themselves before investing.

They must have rapport with the founders/managers of the company and see where the company is heading [i.e. there must be a clear direction for the company].

Culturally in Asia, management resistance is common. Hence the need to identify a role for themselves before investing. If a role cannot be identified, they will not invest.

Would they remove a CEO? Yes but only for Corporate Governance issues or fraud, not normally for other reasons. It can turn ugly when they do this but it may be necessary and in one case they did it & managed to save the company.

## **8) The Future of Asia**

Asia is coming back again & they are more positive on Asia.

Asean is still quite difficult so they are very selective of markets. Malaysia is coming back, Singapore is ok but the Philippines are a definite no no!

In Vietnam the country's infrastructure is not ready yet e.g. the capital market is not viable, there are currency issues and the government's approval process is a problem.

## **9) Investments**

Their investment size is minimum US\$ 3-5 million.

Late stage investments and the companies must have profit track record of US\$ 2 – 2.5 million.

The stake they normally take is 20 to 25%.

Anticipated return is 25% p.a.

REF NO: A2

RECORDING – NO

**GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA**

**PARTICIPANT NAME:** Peter Chan

**DESIGNATION:** Managing Partner

**FIRM NAME:** Baring Communications Equity Asia Ltd (BCEA)

**DATE OF INTERVIEW:** 10-1-2005

**START TIME:** 4.10 pm **END TIME:** 5.45 pm

**PLACE OF INTERVIEW:** BCEA Office, Singapore Land Tower, Singapore

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***TRANSCRIPT OF THE INTERVIEW***

**1) Sustaining Firm Success**

1.1) What Are The Primary Reasons For Your Firm's Success

- a) Team members are the most important. [Emphasis made by Peter].
- b) Need to execute, be transparent and ensure there is longevity in the team.
- c) The management team is decentralised and team focused.
- d) The return on funds is shared with the team, [i.e. there is profit sharing so members of the team share in the success of the firm].
- e) The goal of the firm is to provide a career path for their team members. The idea is to make it a profession and team members can make "partner" within 5 years. [NB: This ties in with the need to create longevity in the team as it is obviously needed for their firm to succeed].

1.2) How Do You Sustain The Success Of The Firm?

- a) Firstly the team members are important.
- b) Strategy

The firm must protect the capital in the fund (capital protective). It is a strategy crafted by Peter & TS [the firm's original two partners].

It is a defensive strategy:

- i) They don't invest in young companies
- ii) They invest in more matured companies almost like Private Equity
- iii) They only take minority stakes in their investments up to 40% of the investee firm's capital
- iv) They refuse to follow dotcom valuations. Pricing was important. There is a need to make sure its not too high.
- v) There is support from the extended Barings group including the US and UK. Their partners globally have an agreement to support each other.

[NB: As mentioned by TS, this is not a fixed arrangement; it is a loose alliance as each fund is independent. But they do this as it is beneficial to everyone in the group and because of the strong historical links that they have as well as the relationships that have been built up over a longer period].

c) Discipline

The team has gone through troughs and peaks and is very committed.

d) Regional Contacts

Peter started with Advent then left to set up BCEA with offices in Taiwan, Singapore, Korea and Bangalore (now closed). New offices are in Shanghai, Beijing and Jakarta.

BCEA has good regional contacts and validation of the technology within different regions. Meaning they have successfully invested in their relevant technology focus areas in different parts of the region.

They are also in constant touch with their counterparts in UK, India, USA, etc. This allows them to share ideas, thoughts and also seek opinions on investments.

1.3) What do you see as the main threat to future success?

a) Relevance

i) Geographical relevance

BCEA is a South East Asian fund manager. When they mix with the Chinese VC association members they feel a little irrelevant. This is because Chinese investments are fast paced and large compared to SEA.

So being regional is very important. Don't be a single country fund, so BCEA will do one ASEAN deal for every two China deals.

ii) Also noted his worry during the dotcom boom that they did not have enough knowledge about ICT especially related to Internet investments. They were worried that their knowledge was no longer relevant because Internet investing was booming but they lacked the knowledge to invest in that particular industry.

They were worried that because of this lack of knowledge they would be left out of the Internet growth industry. However the dotcom bust and subsequent meltdown eased their worries. Since they did not invest in such companies they did not suffer major losses.

b) The way of doing deals

There is a need to be adaptable to new investing styles.

How they structure projects has also changed. There are increased efforts towards early exits and also getting pre-fixed buyers then finding the deals and structure them for a sale.

In Malaysia they have to identify good Bumiputra companies and then fund their IPOs. [NB: Bumiputras are the indigenous people of Malaysia who are given certain preferences by the Malaysian government to help them to succeed in business].

There are also innovative deal structures like asset securitisation deals.

c) Leveraging the fund

Currently the fund size is US\$ 50 million which is not enough, so they have to look at leveraging the funds to get at least 30% more for larger investments.

## 2) Investment Strategy

2.1) Do you use existing strategic models for your firm, e.g. Porter's 5 Forces, SWOT, PEST, etc?

They don't use any of the models.

2.2) What strategy do you use to sustain the success of your firm?

[Note: This is in addition to earlier explanation on their strategy].

a) They must have the right people. They don't really evaluate their team but rather look at it from a "product" angle. What products must you do to differentiate from the other funds? These products must be supported by the team's expertise.

b) In terms of investment strategy, they (BCEA) must know what they want to do to increase the value of their investments.

They have an industry strategy or focus - which is on TMT (Technology, Media and Telecommunications). They wanted sector differentiation so didn't want to do a general fund. The team also had media experience. This strategy enables them to leverage on their experience.

c) The fund is a value investing or value monetising fund. [This relates back to their strategy of investing in the later stages of a company's business].

Their focus on TMT also enables them to enhance the value of their investments. This is again related to their experience in this sector.

The new fund however will be a general fund but will have a theme – value based investing, i.e. can they uncover value in the deal, show the investee firm's CEO the value and build a relationship with the company.

d) Productisation

The target return for the fund is an IRR of 25%. It is also projected as a low risk fund.

Their China valuation is 3.5 to 4 times PE (Price to Earnings ratio).

The team is continuously conceptualising and sharpening their product differentiation. This relates to continuous learning and adapting to the market to keep them relevant.

2.3) Strategically how did you manage changes in the business environment e.g. the Nasdaq crash, Asian financial & currency crisis, etc.?

There were two pressures during this difficult period.

- a) Pressure from their LPs (Limited Partners – their investors) because the LPs were concerned about their investments. To ease their LPs worries they provided quarterly communications on what they do and what are the opportunities and threats. They also



called their key investors every 6 to 8 weeks and personally kept them informed about their investments.

- b) The second pressure was on their team members. The need to keep up the morale of the team and to ensure that the top management remains unified.

During crisis times, the key was investor communications. Many of the investors also suffered from the crisis (e.g. the Asian financial crisis) so they will empathise with the firm's management. It is important to be able to bond with investors and build good relationships.

### **3) Regional Model of VC**

#### **3.1) Do you have a regional model or strategy for VC investing?**

The model is localised for each country. The value concepts may be similar but the last mile implementation is local.

Both the LPs and team members are also all locals. They also use all local partners e.g. local securities houses. Partners may also be investors or co-investors.

#### **3.2) What are the main factors that can impact on regional investments & how do you manage these investments?**

There are three main factors that can impact on investments. The first two are political factors and currency exchanges. These cannot be mitigated unlike legal rules, etc where they can use offshore companies or other countries governing laws in contracts. Politics and exchange rates are out of their control, hence can affect them.

However these same issues also affect other VC firms.

The third is exits. Since exits are the key to successful investments, every market must have an exit strategy.

REF NO: B1 (Transcripts 1 - 3)

RECORDING – NO

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Chok Kwee Bee

DESIGNATION: Country Manager / Vice President

FIRM NAME: BI Walden Sdn Bhd (Walden International Investment Group)

PLACE OF INTERVIEW: 22<sup>nd</sup> Floor, Menara Dion, Jalan Sultan Ismail, Kuala Lumpur

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### TRANSCRIPT OF INTERVIEW - NO. 1

DATE OF INTERVIEW: 21-10-2004      START TIME: 9.30 am END TIME: 12.30 pm

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## 1) Experience as a VC in Malaysia

### 1.1) Management Culture

There is a culture of management resistance to VC in Malaysia; the company founders consider venture capitalists as interfering in their business. The role of VCs is in building companies for example getting CMM (capability maturity model) certification for their companies. Walden was fortunate to exit one of their investments, which has such a problem. In another investment there was a personality issue/clash. The CEO wanted to buy an expensive car worth RM400,000 & the VC rejected it. With other companies they work closely together and have good rapport. Helped to hire a CFO.

Taking Jobstreet, one of their investee as an example. The CEO is not flashy, has an old car. Very disciplined especially in finance and governance. Treats investors very well and even took salary cuts during bad times. It is still about people. VCs can only do so much. For Jobstreet, when they started their business in India, they initially used the Walden office and Walden's India Fund invested in them.

### 1.2) Local VCs

Sometimes local VCs don't sit on the Board of companies and even when they do they don't contribute at Board meetings, just listen only. In other cases VCs get too personal with their investees like MSC Venture Corporation did with Derrik Khoo of GO2020 or with Dr. Guna of Smarttransact (both failed companies).

If the company does well then the shareholders do well. VCs also need to empower the CEO. For employee share options, other shareholders and VCs don't give good value.

### 1.3) Co-Investors

Walden is very particular about co-investors. The people must think similarly, for example where one VC thinks the company is not doing well while another says it is ok, then there is a problem. Walden is a very reasonable investor and will do the right thing because they only want the company to be profitable as it is in their (VCs) interest.

#### 1.4) Integrity is No. 1 priority

Both parties should not take advantage of each other. VCs should give Founders more shares to incentivise them. Some VC practices are not right, e.g. taking 60% stakes in the Company etc. Walden is only tough in terms of governance, milestones and performance. To be successful a strong foundation is necessary.

Entrepreneurship is important and it's the people, they are important. VCs give them discipline, direction and coaching and bring their experience from other investments to the company. Walden wants strong Entrepreneurs; VCs would not be in, in the first place without strong Entrepreneurs. But attitude is important.

## 2) Success

### 2.1) Firm Success

a) Being a Tier-1 firm. For example Sequoia is a better firm than Kleiner Perkins because they have better trophy deals or marquee deals e.g. Sun Microsystems, E-Bay. Walden also has sustainable and successful companies like Sina.com and Creative Technologies.

b) Having good returns – success is having returns of 10 times.

c) Having a good reputation & how Walden operates. Walden stands for integrity, for treating their partners and investments well, adding value to investments and is perceived as helping their investee companies and creating financial discipline.

Based on the above Walden is a successful Tier-1 firm in Asia but not yet in the USA.

### 2.2) Walden's Partners

*What does it take to be a Tier-1 VC firm - have the right partners within the firm!*

Walden partners are industry people, so they know the industry well. [Note: This is also relevant for Market Knowledge category]. For example their software partner Mary Coleman was from Baan a leading enterprise software company. All of their partners have built companies.

Partners must also have a good financial background and must read and learn all the time.

Walden wants people with domain expertise; Kwee Bee is the only partner in Walden with financial expertise.

## 3) Success/Failure Factors

The VC ecosystem is important. The country's legal system is very important for example the filing of patents for R&D must be efficient, bankruptcy laws must be adequate for e.g. in Indonesia and China where bankruptcy laws are weak. Government support for early stage funding is necessary. The availability of an exit mechanism is one of the first considerations. For example in Malaysia the IPO market is good but Malaysia needs to develop the trade sales market especially for the private equity industry.

Economic growth is also important for example during the financial crisis Indonesia was badly affected. Walden also looks at the economic cycles and industry cycles. For example in the semiconductors industry where they have a new investment in Silterra currently which is expected to do well when the semiconductor market picks up again or in Jobstreet which will do even better when recruitment picks up.

The role of government contracts for business is also important for example in the Philippines payment for government contracts is very slow and unreliable and this affects investee companies.

#### 4) Investment Strategy

Walden will consider their investments on a country-by-country basis, as in what they can invest in, in each country. They also look at the core competency of each country. Sometimes the criteria may be too stringent in Walden or the size of the investment may be too small in Malaysia, all these will affect their investment strategy.

#### 5) Transferability of Models

Walden doesn't really have a 'model', its more of a strategy, an American strategy which is quite standard, they look at the technology and the Founders of the firms that they invest in. They learn from their partners and their experience. For example their investee Sina.com had cash so they survived the dotcom crash, while others like competitor Catcha.com did not and so did not survive. The Walden partners knew what was necessary to survive as they learnt from their experiences in the past.

They also learn from their US counterparts on how to be more holistic and fund adequately, for example from experience they know that to design a chip requires at least USD 20 million, so any firm that does not have this sort of funding will not be able to successfully design a chip. They also learn how to build companies from their American colleagues.

#### 6) Regional Strategy

Their regional strategy is based on an industry focus. They choose the industry to invest and sometimes it changes for example now they look for digital consumer products and mobile technology. They also invest in semiconductors, software, electronics, communications and services. They are investing 3 years ahead of what they think future businesses will be.

#### 7) Global Model of VC

From a global perspective Malaysian deals are too small. Maybe the private equity market is big here but when benchmarking with Korea and China the deals there are bigger. Malaysia is at the bottom in terms of size for Walden.

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#### TRANSCRIPT OF INTERVIEW - NO. 2

DATE OF INTERVIEW: 22-11-2004      START TIME: 9.00 am      END TIME: 11.00 am

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##### 1) What if the strategy determined by HQ is not appropriate for Malaysia?

Most strategy is not appropriate for Malaysia. The local fund can do local deals but the US fund is US\$ 600 million. Walden is cutting out country funds. It has 8 country funds since 1988, but now it is going to have a single global fund and will invest in China and North Asia.

The problem is can Walden get a big enough deal, a big enough regional deal that can compare with China and North Asia deals.

For example why would Walden want to invest in Malaysia for 2 times returns when they can get 5 times in other parts of the region (e.g. North Asia)? Returns are not so big in Malaysia but strategy must fall in line with the global fund.

**2) What mechanism does each country use to determine what is appropriate?**

Have to compare with other markets to see the deal size and the number of times returns.

**3) What does Walden do to re-look strategy if there is a sudden change in the selected industry for example either an unexpected boom or bust?**

They will refocus, for example after the Internet bust they had to refocus.

The strategy is to meet regularly, their QMM, the Quarterly Management Meetings. At these meetings they will look at the dealflow, syndicating, etc. Each manager must also identify 10 contacts that can bring in dealflow. [Note: This is also relevant for the Networks category].

They look at the roadmap of investments for the next 3 to 5 years. Each country manager has to do this.

They also de-focus on companies that may not be successful. They will review their portfolio and look for potential winners and focus on them.

They have quadrants for which companies are the cash-burn types, which are potential IPOs in 18 months time and another for those they need to give bad news early. They have to fit each of their companies into a particular quadrant.

For e.g. when they had a problem with Chris Chan the CEO of The Media Shoppe an investee, it was immediately reported to Lip-Bu (CEO of Walden).

They also do weekly conference calls.

The main objective is returns, if there are no returns, there will be no next fund. It is very much like investment banking. The investments must fit in within their sectors.

There is also a sharing of views and knowledge among the partners.

**4) Is there a difference between global players like Walden and a local fund like MSC Venture Corporation in investment strategy?**

The first is lack of knowledge. The locals don't know how VC firms should be run, the difference is similar to a local bank and Citibank. Foreign players have better systems and procedures in place. Locals also lack the exposure; they don't invest in their own training and development for e.g. Walden staff go for the VC Institute course.

Local VCs also don't network as much as they should. Also they need to benchmark not just against VC firms but also against individual VCs. But it is hard to find local VCs to benchmark against, perhaps Azwar (CEO of Mavcap) and Sarina (former CEO of MSC VC). They also need to benchmark against people who show results like Mavcap or MSC VC who have successful IPOs. Asgari (CEO of Intelligent Capital) has some good contacts too.



They can also benchmark against foreign VCs in Hong Kong and Singapore. In Asia Lip-Bu is probably the most successful.

**5) Is there a global VC firm that has got its strategy right and is doing well in this region?**

There are some China and US VCs. TIF Ventures, 3i Plc, Jafco (of Japan) and NEA (a US VC in China) and Doll Capital (which invested in 51jobs.com a Chinese firm that is listed on Nasdaq).

**6) What do you think of Softbank & Transpac, since they both failed in this region?**

Softbank was investing during the Internet time but picked the wrong industry and had a poor strategy. Transpac, the team was not good. External events also affected them and their dealflow.

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**TRANSCRIPT OF INTERVIEW - NO. 3**

**DATE OF INTERVIEW: 6-1-2005      START TIME: 9.00 am END TIME: 10.35 am**

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**1) Sustaining Firm Success**

1.1) What are the primary reasons for your firm's success & how do you sustain that success?

The key success factors for investing in China by Lip-Bu (CEO & Founder of Walden) are:

- a) Get an experienced CEO
- b) Hire a strong CFO, bring in the CFO early
- c) Patience – be disciplined. Investment discipline is important to success.
- d) Stay focused on the business, the industry and the investments
- e) Choose partners (for Walden itself) with good local contacts. Partners must be able to connect Lip-Bu with all the right people and must have a good network.

1.2) What is the main threat to success?

Dealflow is the main problem and for Walden it is a major problem. If there is no dealflow, then Walden may leave the country.

For private equity funds they normally look at manufacturing and consumer companies and there is availability of dealflow in those sectors in Malaysia. SME governance issues are also a challenge to success.

**3) Investment Strategy**

3.1) What strategy do you use to *sustain* the success of your firm?

a) Need to consider what industry to invest in and even which sector within that industry. This depends on the domain expertise of the partners. For example, in semiconductors Walden is in the top 5 in the world and number one in Asia.

b) Secondly need to look at which geographical regions to focus on, currently it is North Asia and China.

c) The size of the deal – if it is too small Walden will not do it. In Malaysia the minimum size is US\$ 1 million but there is a preference for bigger deals. In Singapore the average deal size is US\$ 2 to 2.5 million.

### 3.2) Do you use existing strategic models?

No, don't use any particular models.

### 3.3) How did you manage changes in the Business Environment

a) Finance is the No. 1 issue for Walden, hence the need to get a strong CFO early. Don't underestimate the finance. However it is easier for Kwee Bee because she is a finance person, so feels that she can manage things better.

Be focused on making money. Conserve cash during tough times (e.g. Jobstreet an investee did this, even took pay cuts). The investee must have 18 to 24 months cash reserve, so cash management is important.

b) The trend in technology is important. Both within the investee firm and Walden itself, they must have the people to brainstorm. They need to anticipate trends and change the business model if necessary. They also need to get second opinions from experts.

#### c) Exit opportunity

If necessary they can redeem their preference shares (i.e. exit the investment) or merge the investee firm with others to ramp up business. They need to have a program to exit their investments, so that they are not as badly affected in bad times.

#### d) PATIENCE [Emphasis intended by respondent].

Sometimes they just need the patience to ride out the crisis.

REF NO: B2

RECORDING – YES

**GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA**

**PARTICIPANT NAME:** Cindy Tee

**DESIGNATION:** Investment Manager (Has left Walden and is now a Consultant)

**FIRM NAME:** BI Walden Sdn Bhd (Walden International Investment Group)

**DATE OF INTERVIEW:** 29-10-2004      **START TIME:** 12.00 pm **END TIME:** 1.20 pm

**PLACE OF INTERVIEW:** Coffee Club Express, Suria KLCC, Kuala Lumpur

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**TRANSCRIPT OF THE INTERVIEW**

**1) Some Background on Walden**

Walden is a very bureaucratic organisation and they don't invest in ground breaking technology.

There is a lot of sharing of information between the various partners and they have quarterly industry group meetings. [Note: This point is also relevant for the market knowledge category].

They invest for the future.

**2) Success**

2.1) Firm Success

Success is:

- ☐ Delivering returns of 10 times multiples,
- ☐ Have big winners and
- ☐ Have the ability to spot good opportunities to take to an exit. [Note: Also relevant for the exit category].

2.2) Personal Success as a Venture Capitalist

Final thing is still returns. Even if you manage to raise funds but cannot get deals and cannot exit, it defeats the purpose of being a VC.

2.3) Would you consider Walden as Successful?

Walden International is a successful VC. BI Walden was a successful VC but times have changed. Where they are today is because they had enough guts to make the call, good due diligence and the ability to tap on resources.

In Malaysia VC investors can get 2 times or even 5 times the investment but to get 10 times they need to get into early stage deals. The fund life is only 5 years so it is hard now to do early stage.

They are also not 'gutsy' enough now and this is a function of the current leadership. Even in the US software deals are not giving 10 times. Recent times they do more co-investments.

### 3) Success/Failure Factors

There are no real factors, but they do look at different industries. Even in China the deals are structured as BVI (British Virgin Islands) companies to protect against legal issues.

As for success factors they will look at the returns potential – 5 times and above returns. They also consider a strong co-investor as partner.

To confirm the deal, there has to be buy-in from the Walden industry partners and the Exco.

Third party endorsement also helps in deciding to invest in a deal.

However going overseas is tricky and the company has to deliver and push for it (going overseas).

It's all about risk vs. return and the time spent on the deal.

### 4) Investment Strategy

There is a strategy; it is an "industry focus" strategy.

There are 5 sectors in Walden, each headed by an industry expert and each has its own committee. The sectors are:

- ☐ Software
- ☐ Electronics
- ☐ Semiconductors
- ☐ Communications
- ☐ Services, e.g. Business Process Outsourcing (BPO)

They identify their strategic focus via the history of the group. It started with semiconductors in Taiwan and Malaysia and evolved into software, Internet and BPO.

The industry heads look at the development of the industry, meet half yearly and perform an annual review of the industry. There is also a yearly strategy meeting. Individual sub-committees also meet regularly to share information.

### Diversification Strategy

There is Fund diversification by sector, country and stage of investment.

The desired return is double digit IRR.

Walden will even return funds to investors if they feel they cannot get the required IRR.

### Dealflow

There is no sufficient dealflow in Malaysia. It is better in Singapore, Hong Kong and China.

BI Walden also does co-investments and has done deals in the US, Singapore and Taiwan. In this case another Walden office may do the deal and in BI Walden they will look into the "fit" of that investment into their (BI Walden) investment strategy.

## Regional Strategy

Asian investments do not interest American investors because the deal size is small and not worth their time.

In the US there are more early stage investments but in Malaysia and Singapore it is more expansion stage.

There is also more innovation in Singapore on a regional perspective.

### **5) Transferability of Models**

The US gives tips and pointers; it is a 'top-down' approach.

However each country needs to formulate a local strategy and see what works and what does not. What works in the US may not work in Asia.

Need to look at what potential talents are in each country.

### **6) Regional Strategy**

It is possible to have a regional strategy for e.g. mobile strategy. BI Walden looked at Malaysia and Singapore for this strategy.

The strategy must fit a regional model and must work with regional partners (i.e. Walden's regional partners).

It sounds really good on paper but actually doing it is difficult. Regional deals also make it more interesting (from a deal perspective). For example China is very interesting.

### **7) Global Model of VC**

They have standard manuals and must follow processes for e.g. workflow, due diligence and documentation. In deal origination they have to interact with all parties. When there is a deal then they have to check out the deal, use their contacts, industry and market players. If it is an early stage deal then there is a lot of handholding, introduction to potential customers and hiring of staff (executive recruitment) although they don't do that so often in Malaysia.

As an example they introduced Agenda Malaysia (an investee company) to Mavcap & secured a deal for them. In Malaysia they rarely have large shareholdings and rarely do executive recruitment.

### **8) Dealing with Investees**

Demographics in Asia are based on strong individual contacts. The strong Asia – Silicon Valley connection in Walden made Asian companies successful in the USA.

However this did not apply to Malaysia because it is too competitive in the US. In Malaysia the companies sell services but in the US it is about licensing.

An example is The Media Shoppe, their investee company. The whole company is concentrated on Chris Chan, the CEO and Founder. They should have a VP for international sales but they don't. The management is not strong. They had Dr. Wilson Tay, the COO but he was headhunted by the Multimedia Development Corporation to head the Technopreneur Development Flagship.



It is a people business but Walden had a personality conflict issue with TMS.

Americans by nature are very business and performance oriented. If you don't deliver, then off you go, but this does not happen in Malaysia.

For e.g. in TMS, Darren Chang, their Executive Director stayed on despite non-performance. In fact maybe even the CEO should be changed because of underperformance. In TMS it is very paternalistic (with Chris Chan as the head).

BI Walden left the management of the company to Chris and tried to help. Cindy had a good relationship with Chris but the Partner (and head of BI Walden Ms. Chok Kwee Bee) had the final say and was a stumbling block. Personal emotions got in the way, but this made Chris more driven. However TMS could have done more.

The TMS management did not have the expertise for foreign entry to do business overseas and had different ideas on how to grow the company. The BI Walden partner wanted a more local focus but the CEO wanted to go overseas. However he needed a person to strategise for the foreign market but didn't have one.

Other investees were different. For example Jobstreet had a very strong management team and even got a management coach into the Board, a turnaround specialist.

REF NO: B3

RECORDING – NO

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Chong Chee Khen      DESIGNATION: Investment Manager

FIRM NAME: BI Walden Sdn Bhd (Walden International Investment Group)

DATE OF INTERVIEW: 18-11-2004      START TIME: 3.00 pm END TIME: 4.45 pm

PLACE OF INTERVIEW: Equatorial Hotel, Kuala Lumpur

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Success

##### 1.1) Firm Success

Success is meeting the expectations of investors especially:

- ☐ Good returns (in Malaysia it is 3 times returns)
- ☐ The number of companies that get listed

Also do some nation building including encouraging entrepreneurial activity and creating a pool of Entrepreneurs. Investing mostly in early stage so returns are 3 times.

##### 1.2) Personal Success as a Venture Capitalist

If the companies that you work with go for a listing or a trade sale then you are a successful Venture Capitalist. The ability to link people so that they are successful is also a measure of personal success.

##### 1.3) Would you consider Walden as Successful?

Yes because it met expectations of shareholders (investors) but it is getting harder to meet expectations yet shareholder expectations are the same.

##### 1.4) Why is Walden Successful

Within each fund there is always a home run deal and BI Walden has delivered a home run in Unisem Bhd (a semiconductor manufacturer) with a return of 5 times. Walden as a whole does not join the hype and has a more balanced approach, for e.g. Softbank went after Internet deals during the hyped up days (and closed down not long after). But BI Walden has a mix for e.g. electronics, software and also some offshore deals.

The main reason why BI Walden is successful is that the founder Tan Lip-Bu is a long term visionary and a little bit conservative, unlike Softbank jumping into specific industries and being very aggressive [herd mentality].

#### 3) Success/Failure Factors

The overseas country offices take the lead because BI Walden co-invests with each country fund. So BI Walden is protected by its own global funds as they have a presence in the country of investment even if BI Walden doesn't.

There are no factor considerations as they go where the deal is and invest in the areas they know best. For example they don't do deals in Vietnam because there are no offices there. Local fund means there is continuity for e.g. Softbank is a global fund, so in times of crisis they can just leave the country but BI Walden has a local fund so it cannot do that.

#### 4) Investment Strategy

The strategy is an "industry focus" strategy. They concentrate on specific focus areas for e.g. electronics, semiconductors and software. Investment criteria would be the same for all the industries – market size, management team, strong CEO, etc. criteria common for all VCs.

The strategy is formulated by the respective country heads, the industry experts in the group and by Lip-Bu. Sometimes there are 'hot' areas and they can look into these areas, but not lose focus or abandon their original industry focus.

There are regular meetings to formulate the strategy. Generally the strategy has been effective. There is also no investment 'model'. The investments are all pure equity investments. The investment (amount) is normally made in a 'one-off' payment; they normally don't do it in tranches.

#### 5) Transferability of Models

Not always applicable, it has to be adjusted to each local country.

#### 6) Regional/Global Strategy

The investments they make are by industry and not by region or country. Their investment is by an 'industry focus' even for their global investments.

#### 7) The Difference between foreign and local VCs

The perception is different, for example the foreign VC can take the investee overseas (i.e. help them to expand their business overseas) and the deal is also perceived to be 'clean' i.e. no 'under table' money (i.e. no bribes will be given or taken). Operationally though it is the same.

How they look at deals is different because the foreign VCs have better exposure as they can depend on or have the experience of prior deals done by other global offices to help guide them in their deals. [Note: This is also relevant for the Market Knowledge category].

The expertise of other offices and partners is used often. [Note: This is also relevant for the Market Knowledge category and Dealflow category]. This helps a lot in the deal making. The local office does the same for the overseas offices too.

#### 8) Deal comparisons

Investments in Malaysia compared to say, Singapore, the quality is the same. But the Singapore government has created a better ecosystem and more networks that help their companies, this is not happening in Malaysia.

However, this is not applicable everywhere because China for example has a huge domestic market so it is hard to compare with Malaysia. One of Lip-Bu's strategies is to look at returnees (for example Chinese returning from the US back to China) because they have better exposure and a better culture, [which presumably they learnt from the US]. A weakness in Malaysia is that the ecosystem is not as good, but this is beyond the control of VCs.

REF NO: C1

RECORDING – YES

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Mr. Virapan Pulges

DESIGNATION: Managing Director

FIRM NAME: H&Q Thailand Ltd

DATE OF INTERVIEW: 4-12-2004

START TIME: 8.00 am END TIME: 10.15 am

PLACE OF INTERVIEW: Suite 1207, 12<sup>th</sup> Floor, Sathorn City Tower, Bangkok

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Success

##### 1.1) Firm Success

H&Q is better than most VCs in terms of internal return to investors and growth of funds under management. Previous investors keep investing (in the new funds). [Did not provide actual details because of confidentiality. Virapan assumes the point that the reinvestment by existing investors is a measure of success].

##### 1.2) Personal Success for the VC

When he makes good investments and contributes to the country (in terms of the economic growth of the country). For example, one of the investments he made is Fabrinet Company Ltd, which is a management buyout of Seagate. The company supplies electronic components to major companies like Intel, JDS Uniphase and Honeywell and is a major exporter in Thailand and also a large employer.

#### 2) Success/Failure Factors

##### 2.1) Key Factors

There is a scoring system when they decide to invest and this includes certain factors like:

- ☐ The quality and availability of labour
- ☐ The quality of the engineering staff
- ☐ Language issues (for example exporters must have English speaking management)
- ☐ There must be adequate infrastructure
- ☐ There must also be good Intellectual Property protection (e.g. in Thailand, there is good Intellectual Property protection for contract manufacturers).

#### 3) Investment Strategy

##### 3.1) Does the firm have a defined investment strategy?

There is a strategy but it changes from time to time. H&Q invests in technology manufacturing (80% of investments). H&Q has 3 regional funds:

- ☐ In 1992 its first fund was the Asia Pacific Growth Fund – US\$ 75 mil.
- ☐ In 1996 the 2<sup>nd</sup> fund was the Asia Pacific 2 Growth Fund – US\$ 230 mil.
- ☐ And in 1999 the 3<sup>rd</sup> was the Asia Pacific 3 Growth Fund – US\$ 750 mil.

Pre-crisis it used to make minority investments but post crisis (1997 onwards) control was more important. [This looks like a change in strategy from VC to private equity type investing].

Post crisis its investment size is larger, for example Fabrinet was US\$ 20 million, SVI Public Company Ltd US\$ 70 million and Thaican was US\$ 20 million. Thaican and SVI are listed on the Thai stock exchange.

There is no particular industry strategy, they will invest in any good deals but there are 3 areas they would like to be in:

- a) Technology manufacturing
- b) Financial services
- c) Branded consumer goods

They would like these three areas to constitute 80% of their deals and the balance 20% in anything else. The dealflow in Thailand for their size deals is not many so they look for more MBO deals. Sourcing deals is via their networks [Note: This point is also relevant for the "Networks" category]. In fact all the 3 deals mentioned above were due to personal networks.

### 3.2) Formulating Strategy

The strategy is formulated by an Executive Committee (Exco), which consists of the various countries Managing Directors. The MDs meet every quarterly. Sometimes there is also an Exco on a regional basis. Post crisis they decided to invest in restructuring companies, now it is buyouts or migration. [Migration occurs when firms move operations from one country to another, e.g. from Singapore to China].

### 4) Investment Models

Whenever there is a change (e.g. in economics like the crisis, or a new fund is started) then they may look at models like SWOT. The MDs will discuss the SWOT and look at strengthening their SWOT. It is more of a process plus a strategy and not a "model".

### 5) Transferability of Models

5.1) Does your parent firm have a specific model or strategy for each market?

The headquarters does not play much of a role in the strategy. The Exco and the Investment Committee makes their own decisions.

There is a separate regional Investment Committee for the H&Q Asia Pacific Fund which consists of the US Chief Operating Officer, CEO of H & Q Asia Pacific, MD of Korea and MD of the Philippines. When making decisions they will do a conference call and if the investment is larger than US\$ 20 mil. then 2 members of the Investment Committee would visit the company. This is for the regional fund. But each local fund has a local Investment Committee and they make the decisions. For the regional fund, the regional Investment Committee approves about 80 to 90% of the deals.

### 6) Regional Strategy / Regional Model

There are separate regional funds for e.g. an ASEAN fund (which is smaller in size). Each country may have a different strategy because each country has a different economic cycle. For example Singapore more advanced than Malaysia, China more consumer oriented, etc. H&Q is looking to invest in companies setting up manufacturing plants in China or companies that are selling to Chinese consumers e.g. selling I-Mode phones in China. Their strategy is to have local managers in each country.

The deal size regionally is US\$ 20 to \$ 50 million per investment. The regional strategy may change every time they raise a new fund, which is about every 3 to 4 years. The regional model is successful because H & Q is based on the following:



- ☐ Diversifying risk
- ☐ Economies move in cycles
- ☐ Competition within H&Q itself because each country competes with another country
- ☐ They go for the best deal within the region

Other factors like the preference for China however does have an affect on the firm.

### 7) Global Model of VC

H&Q in the US only invests in the US. The US office invests in different sectors but in 'real' innovation technology. Tried to do that for a year in Taiwan but it didn't work. The deal success in the US can be 1 success out of 10 and that still makes it successful because that one successful deal can return 50 to 100 times the investment. However in Asia, to be successful they need to have 50 to 60% success because the return rate is not that high, maybe 3 to 6 times only.

For example some of H&Q's returns in companies that went IPO were:

- ☐ Thaican the return was 2 times,
- ☐ Thaicon (a factory leasing company) it was 4 times,
- ☐ SVI for the first fund was 6 x but the next fund was only 2 x (there were 2 separate investments made by H&Q)
- ☐ Fabrinet there was an offer to acquire at 3 x

The American style returns of 50 x does not happen in Asia.

For example, Walden invests 30% in the US, 30% in Asia and the balance elsewhere. Most of their 20 x returns are in the USA.

REF NO: C2

RECORDING – YES

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Mr. Patan Somburanasin

DESIGNATION: Investment Manager

FIRM NAME: H&Q Thailand Ltd

DATE OF INTERVIEW: 3-12-2004

START TIME: 11.00 am END TIME: 12.30 pm

PLACE OF INTERVIEW: Suite 1207, 12<sup>th</sup> Floor, Sathorn City Tower, Bangkok

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Background

H & Q Thailand started with a US\$ 20 million local fund pre-crisis (before 1997). Most investments then were in basic manufacturing with Taiwanese and Chinese companies in seafood, paper, etc. At that time there were less than 10 VCs in Thailand, including Prudential, H&Q etc. After the crisis H&Q raised a regional fund because post-crisis there was good potential for larger investments especially in restructuring plays. The deals were also larger, up to US\$ 20 mil. per deal. For example they bought a controlling interest of 90% in a bankrupt electronic manufacturing concern. The average return from those divestments is 2.5 times.

They still own 2 electronic companies from the earlier investments and have more than 50% stakes in them and are active in the management. They also hired new management after they took over. The investments are doing very well; one company is doing US\$ 200 million in sales from startup in 1999. Hence H & Q Thailand is different because of their majority stakes in companies and active involvement in their investments.

The culture of the company and the management in the investee company is important in the decision to take on a majority stake. Some examples of their investments:

- a) The first company Fabrinet Company Ltd is doing sales of US\$ 200 mil. and is well run by the CEO.
- b) The second company is SVI Public Company Ltd. The CEO retired at the age of 75, so they hired a new management team.
- c) The third is ThaiCane Public Company Ltd, a family owned paper manufacturer. They discovered fraud after the investment and had to remove the family management and run the company. They had to recruit a new team and put in place proper corporate governance. They took over the company and had to negotiate with the bankers (in the restructuring of the company).

H & Q Thailand is currently fully invested. They are raising a new fund both for Thailand and also for Asia Pacific. The new H&Q Asia Pacific fund is focused on North Asia, mainly China. There is also some dealflow in Korea and Japan. In China the opportunities are in commodities, manufacturing and state-owned enterprises. In Taiwan it is in electronics.

#### Raising New Funds

H & Q Thailand is raising a new fund. Out of the original regional fund of US\$ 750 million, up to US\$ 36 million was invested in Thailand.

From the earlier US\$ 270 million fund, US\$ 25 million was invested in Thailand. The new fund being raised will be used to invest in controlling stakes in buyouts from MNCs, outsourcing companies and restructuring deals. The Thai government and Lombard (a fund investor) will jointly invest about US\$ 250 million in the new fund. This fund will invest in both large companies, SMEs (about 1 billion baht size – about US\$ 25 million) and in medium sized companies that are in the Thai recovery fund (set up to restructure crisis companies). The allocation for medium sized investments is US\$ 100 million out of the total fund.

### **Dealflow**

Dealflow in Thailand is quite limited. This is because many family owned businesses prefer to get loans from banks, as banks are more willing to lend due to the recovery of the economy. However some of the younger generation who are educated in the USA may consider VC investments. There are also corporate spin-offs like AMD. The size of H&Q is large so they don't invest in smaller companies. The minimum investment size is US\$ 10 to 15 million.

## **2) Success**

### **2.1) Firm Success**

The reason for the existence of H&Q is to make money for the investor. H&Q is a brand name in Thailand – people know that it is a premier VC firm. The rate of return is the "hurdle rate" based on American Treasury Bills about 8% (i.e. this is the minimum that the firm must earn for its investors per annum), but H&Q is returning 2.5 times (far higher than the hurdle rate).

### **2.2) Personal Success for the VC**

To see the firm's investees be successful companies (e.g. a bankruptcy company turned around into a successful company). Also to enjoy the work, broaden the vision and to see good and bad things.

## **3) Success/Failure Factors**

There are two main factors, firstly the industry that they pick to invest in is important [Note: Also relevant for the "Dealflow" category]. –the right industry, right company and at the right price. The second important thing is the people who run the companies.

### **3.1) What happens if the industry strategy is wrong?**

The fund period is 10 years so they need to do a good due diligence on the industry, to pick the right industry. In some industries like high-end electronics, the Intellectual Property is important, so here the IP is more important than the cost. They also look at the details of customers, their needs and the competitive advantage of the company. Some niche products and less price sensitive manufacturing will stay in Thailand and not go to China so they invest in these areas. Others like software are too small in Thailand.

### **3.2) Failures of H&Q**

Failures are because of industry failure or due to other partners. Sometimes the business model does not work. Sometimes H&Q does not have a large enough stake to be influential in the turnaround. In Thailand and Asia family businesses are also not well run. The family gets richer but the company does not. Also owners do not want to let go of the company even if they cannot run the company, unlike US managers. The culture is different in Thailand and Asia. Culture is a factor. Thai companies are mainly Chinese run and they want to control the company. They will only let go of the company if it has no value. The younger generation is different because many of them have a western education.

## **4) Investment Strategy**

### **4.1) Does the firm have a defined investment strategy?**

The original fund was US\$ 750 million with a strategy to take majority control or have an influence on the investee company. The investment sectors for H & Q Asia Pacific were manufacturing, technology and software. For H & Q Thailand they were to invest in technology manufacturing not software because in Thailand software companies were only at the early stages.

#### 4.2) Formulating Strategy

The H & Q Asia Pacific strategy is formulated by the management in the USA – the CEO and COO and the various Managing Directors who meet quarterly. They share experiences and fund performances. [Note: Also relevant for the "Knowledge Sharing" category].

However the local offices will identify their opportunities and dealflow. For example in Japan it may be software but not in Thailand. However when there is a local fund it can have a different strategy. It can also be different in terms of fund and investment size but will still look at taking controlling blocks or influential shareholding especially in restructuring deals.

**The local management will propose the industry strategy and will identify the different industries to invest in based on each country.** For example if in Asean it is manufacturing, then in Thailand it will be automotive, electronic and service. However since the automotive companies are controlled by foreign companies from the US and Japan, they invest in the 3<sup>rd</sup> tier Thai companies as there are opportunities there.

H & Q Thailand only invests in Thailand but if an investee company wants to expand then the other H&Q companies will assist in the expansion. Assistance is also provided in divestment of interests. Other management staff (from other H&Q offices) also get involved in the investee companies for example to look at the business, cash flow, etc. The active involvement of H&Q in the management of investee companies is important for the success of H&Q. But where the CEO is good and the company is well managed then they (H & Q Thailand) have a lesser degree of involvement.

#### 5) Investment Models

The investment model is the same as the investment strategy. They make sure their investment has sufficient influence. They need to find a company that is growing and has a competitive advantage. They have to find value in the company. The intention of the investment is to grow the company so even though they are investors they will do business development and use their networks to help grow the company. [Note: Also relevant for the "Market Knowledge" category and "Networks" category].

If the VC has no expertise or uses the wrong strategy then it can also lead to failure. They need to work with the companies' managers and play Devil's Advocate. Entrepreneurs are always too optimistic so VCs need to play Devil's Advocate and even prepare the company for bad times if necessary. **They also need to study the company's markets.**

#### 6) Transferability of Models

When they raise funds they may state to the investors the industries that they pick, but **they will give each country leeway to decide on the industries and don't place limits on each country.**

#### 7) Regional Strategy / Regional Model

Each country must adapt to fit its own different culture and different demographics. Not sure about regions. For example in Thailand they invested in a paper company because they were investing at the bottom of the cycle. Normally they don't invest in commodity type businesses. Also the region may be limited. For example the Asean market may be small and the returns may not be great so returns on high technology investments in the region may not be as good as in the US.

REF NO: D1

RECORDING – YES

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Esmond Goei

DESIGNATION: Chief Executive Officer

FIRM NAME: MSC Venture Corporation - Malaysia

DATE OF INTERVIEW: 4-11-2004      START TIME: 2.00 pm END TIME: 4.00 am

PLACE OF INTERVIEW: MSC VC office, Cyberjaya

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Success

##### 1.1) Firm Success

Success is:

- a) Achieving the rate of return as set by the fund and the money the fund makes.
- b) The ability to be engaged in domestic policy, their views being solicited by policymakers and the recognition that they get.

In the Malaysian context MSCVC is very successful. Some examples include Nexus Edge who they have taken to the US market, Farallon Medical a US medical device manufacturer now located in Malaysia, in China they have Cosmos Discovery and another successful company is I-Systems a provider of software for the insurance industry. They have also listed a few companies on Mesdaq including RedTone, and Karensoft Technologies.

The dealflow is strong especially in the US because of Esmond's networks. There are a lot of big deals thanks to the "word of mouth" network. [Note: This is also applicable to the "Networks" category].

##### 1.2) Personal Success as a Venture Capitalist

- a) Financial success is the first.
- b) This financial success then allows Esmond to attract more deals.
- c) Dealflow that is attracted by word of mouth. (This is again the recognition that is given to the individual VC by the market).

Success also provides more flexibility in time and more dictating power. The Golden Rule is, "He who holds the gold makes the rule". His personal mission is to develop the VC industry in Malaysia. So he sets the pace and does the deals, leadership by example. Malaysia is a good place for business because it has character and quality of life. Global terrorism though is a problem but Malaysia is a shining example and is prosperous, but it must keep its prosperity.

#### 2) Success/Failure Factors

##### 2.1) Image and government policy

The foreign VCs image of Malaysia is that it is hard to do business here. There are great marketing stories but they don't stand the test for foreign VCs. Malaysian performance is measured as follows:



- ❑ Productivity improvement is only 3 times
- ❑ The average investment is RM 3.5 million (about US\$ 900,000).

However MSCVC's average investment is US\$ 3 to 5 million, so their average size is larger than the norm. Malaysia also has some poor policies for example Biovalley [a biotech initiative that has floundered], which is foolhardy and delusional. The government hasn't finished the job on IT yet so they shouldn't go into something new like Biotech. Even in IT you still cannot find qualified people so what more Biotech.

## 2.2) Market Size

Another factor is that Malaysia's domestic market is small so why would VCs want to put money in Malaysia?

## 2.3) Malaysia's Investment Strengths and Weaknesses

VC investing is not just about money but also about Entrepreneurs. We should also present Malaysia as a facilitator to address different markets. Mesdaq is the jewel in the crown as there is a good exit and there is liquidity. However in Malaysia it is like "snatching defeat from the jaws of victory". It is a great country with a lot of natural resources and friendly people. It is not like Vietnam a communist country. There is also access to money from the Middle East.

However we will never produce 1 million engineers a year and never match the cost of labour of other countries. But we do have better governance. So we need long-term policies but at the moment we have no real objectives. Even in politics the anti-US sentiment didn't help.

## 3) Investment Strategy

### 3.1) Develop and benefit Malaysia

- a) Use Malaysia as a facilitator, bring deals to benefit Malaysia.
- b) Make Malaysia an "entrepot" for technology for example facilitate the connectivity between the Middle East and say the USA. Malaysia can provide US companies' access to the Middle East and China.
- c) Investors can liquidise their investments through Mesdaq and use that for China and Middle East.

However there are hurdles with dealing in Malaysia. Taking money out of the country needs Bank Negara (Central Bank) approval and there are too many holidays here so Malaysia is not so productive.

### 3.2) Application Technology

They are looking more at the "application" of existing technology and not just developing technology because there is mass merchandising appeal and Malaysia is very consumer oriented.

### 3.3) Globalisation

Malaysia has low cost resources so for a company that has marketing access in the US they can use the low cost resources here.

## 4) Investment Model

There is no investment model. Every deal is different. It is based on the experience and knowledge of the Venture Capitalist. When they look at a deal, they have to "look beyond the deal". [Note: This is also applicable to the "Expertise and Knowledge Base" and the Dealflow" category]. For example Cosmos Discovery is not just doing TV programmes but also doing programmes for China in the Chinese language.

## 5) Regional Strategy

It is possible to have a regional strategy but may need to change the focus. Need to look at the strength of each country and the size of the market. For example Cosmos Discovery is developing TV programmes for China but they can duplicate that for Thailand.

## 6) Global Models

There is no "Global Model". The US model is not applicable in Malaysia. The infrastructure and the ecosystem are different. The key part of the ecosystem is the state of mind, the people in the US have a different state of mind, they are not afraid to venture out or to invest money for a future return. Here they look at the magnitude of the investment not the ROI, and they are afraid to invest money for future returns. For example here when they need to invest US\$ 5 million it is like "wow" 5 million, not how much can it return.

We need to change our state of mind in our approach to the education system, our approach to Mesdaq and even how we approach the infrastructure. The state of mind condones the breach or disregard of laws and stifles investment. So they need to change their state of mind.

Globally, there is a poor perception of Malaysia.

REF NO: D2

RECORDING – NO

**GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA**

**PARTICIPANT NAME:** Husni Salleh **DESIGNATION:** Chief Operating Officer

**FIRM NAME:** MSC Venture Corporation - Malaysia

**DATE OF INTERVIEW:** 22-10-2004 **START TIME:** 10.00 pm **END TIME:** 12.30 am

**PLACE OF INTERVIEW:** Austin Chase, Bangsar Shopping Centre, Kuala Lumpur

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**TRANSCRIPT OF THE INTERVIEW**

**1) Success**

1.1) Firm Success

Success is:

- ☐ Having a few home-runs of 10 times returns on at least 3 to 4 investments
- ☐ Make some people millionaires
- ☐ Make yourself a millionaire too (as a VC fund partner)
- ☐ Get these millionaires to reinvest in your future funds

It is important for VC firms to make sure they keep the individuals – the firm's managers & key staff too. However the local VC structure is different as there is no "partnership" structure. All the senior managers earn an income: a salary and the senior managers are not financially stable. In the US and Europe the VC fund managers are already well off. Malaysia also has no regulations to cover VC partnerships like the Limited Partnerships for investors and the firm's managing partners like in the US. MSC VC is relatively successful compared to other VC firms in the industry.

1.2) Personal Success as a Venture Capitalist

Personal success is to be fairly well recognised as a good VC and also to have managed a successful fund. Would like to have a few million Ringgit in the bank from the rewards of the current fund and to run an anchor fund in the future.

**2) Success/Failure Factors**

One of the factors is the ability to find the right deal and the right people – dealflow. Capital market liquidity and a good exit are important. For example, on Mesdaq you cannot make 10 times returns. M&A is also non-existent so there is no strategic deal making possibility. The big companies and multinational corporations are not looking at companies here. For e.g. Intel Capital have no investments here. The local companies buy for market reach not for investment.

Local companies that can buy their investments also do not do any research and development on the industry, they don't do any analysis, corporate planning is poor and are very political. So this leads to the poor exit potential for M&As. Even the Government-linked corporations have short-term thinking.

Among external factors, government policy does not have efficient systems, the system is filled with bureaucrats not technocrats, and so it does not help the VC industry.

### 3) Investment Strategy

There is an investment strategy and it is based on the life cycle of the fund a sort of "beginning – middle – end of the fund" life cycle. The strategy is to decide on how they can capitalise at each timeline. At the beginning you can invest in the early stage deals as you have time to grow these businesses slowly. However towards the end of the fund you can only invest in the late stage or mezzanine investments, as you need a quicker return. You cannot wait too long as the fund is coming to the end of its lifetime.

So you have to pick the industry for e.g. no biotech and bio-informatics (it would take too long to give a return). Electronic devices and consumer electronics on the other hand are easy to ramp up. It is the same with manufacturing but not for software. So they need to keep track of developments.

The basic strategy is:

- ☐ How to maximise profits
- ☐ Invest in people they know
- ☐ Put in more money into people they know

In the beginning they would look at the different sectors to invest in but at the later stages of their fund they have look at other factors as well.

### 4) Transferability of Strategy

Some strategies can be transferred but they need to talk to people overseas, to their networks. They need to do more due diligence and also need to pre-screen their deals. They will make more use of their networks to find out examples of the things that their contacts did. [Note: Also relevant to the "Networks" category].

MSCVC have a strategy of investing in regions too and have investments in China, Singapore and USA. The strategy is the same but the execution is different.

China

For example, for their China investment, the exit may not be in China, so they will exit outside China for e.g. in Singapore or Hong Kong.

The legal issue is weak in China so structuring of the deal is given more serious consideration. However, protection is bad elsewhere and if they want to "screw you" they will, anywhere, anyway. Yet people still invest in China, the China story still sells.

### 5) Regional Strategy

Technology is still difficult to sell in Malaysia. When they look for technology companies they will help them to either localise the technology or internationalise it. They do business development and will even project manage the deals. They also do fund raising for their investee companies.

### 6) Global Models

There is no "Global Model". VC is a very local phenomenon so they have to adapt to the local situation. For e.g. Walden is in partnership with a local bank, Bank Industry. [BI Walden is a partnership between Bank Industry and Walden International]. Others like H&Q and Softbank failed because they did not have local partnerships. The customs and the networks are all local.

People and management culture are different. For e.g. in China do not put a Chinese in top management because they are not used to having a company and not used to respecting the law, corporate governance and don't know accounting.

**GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA**

**PARTICIPANT NAME:** Alan Tan

**DESIGNATION:** Investment Manager

**FIRM NAME:** MSC Venture Corporation - Malaysia

**DATE OF INTERVIEW:** 13-11-2004     **START TIME:** 10.30 am **END TIME:** 12.00 pm

**PLACE OF INTERVIEW:** Austin Chase, Cyberjaya

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**TRANSCRIPT OF THE INTERVIEW**

**1) Success**

**1.1) Reason for existence of MSCVC**

MSCVC is expected to play a developmental role because it exists to fill the gap between the reason for the Multimedia Super Corridor's existence and the goals to be achieved by the MSC for example:

- a) R&D excellence – attract technology, money etc to the MSC
- b) The MSC had everything including policies and infrastructure (hard & soft) except money. However you cannot attract money in a void, so they started MSCVC.

Technology business cannot grow organically it grows by being aggressive so it needs funds, especially VC money.

**1.2) Firm Success**

The shareholders view success as "objective based success", i.e. if it achieves the objectives set out for it above, i.e. the developmental role. MSCVC is successful to a certain extent, it could have done more but it was not given the mandate to invest in seed. So it is successful in everything except seed funding. MSCVC is a pretty successful firm and has already broken even. On a regional perspective, it is probably one of the more successful.

**1.3) Personal Success as a Venture Capitalist**

The benchmark for success is financial – IRR. He benchmarks against Silicon Valley prior to the boom years so an IRR of 10 to 15 is average, 15 to 20 is above average and above 20 is exceptional. Asian VCs IRR between 1990 and 2000 is – 4% (negative), but Taiwan would be positive. Personally also he needs a track record of success.

**2) Success/Failure Factors**

Malaysia has certain strengths.

- ☐ It is very competitive
- ☐ Less bureaucratic

But there isn't sufficient expertise in the VC industry. The government can support the industry by providing money for foreign VCs to invest here, on a Dollar for Dollar basis either Government to Government or Government to private sector. This requires a change in mindset at the Government level.

**3) Investment Strategy**



### 3.1) Investment Strategy

MSCVC investment strategy depends on a few factors:

- ☐ Good dealflow
- ☐ Good networks
- ☐ And a good sense on how to see the bigger picture. Entrepreneurs don't let go of their controlling stake and don't want to be diluted. This is the mindset of Entrepreneurs.

The following strategy is used:

- ☐ Invest in things that they understand
- ☐ In companies that they can value-add
- ☐ They must have a network in that field
- ☐ Must be comfortable with the industry

They must be able to pilot the boat when necessary. In Malaysia Entrepreneurs are young first-timers. So MSCVC must be able to solve their problems if Entrepreneurs cannot. "What works best is what we know best". When Entrepreneurs have problems they only want more money but it is not always about money. They also need a good "fit" with the Entrepreneur.

Entrepreneurs are also not sure about the exit points. They always try and raise their salary upon VC investments, hoping to cash out at every fund raising point. CEOs view the IPO as an exit point not as the continuation of the story into a new phase. Entrepreneurs should let professionals run their company after it matures but this can be costly.

### 3.2) Change of strategy

The strategy changed 2 times. The strategy at the beginning was to fulfil the role as a catalyst for the MSC because the missing link for spawning innovative companies was finance. In the US big corporations and multinational corporations are open to spin-offs. Corporate venturing is however alien to Malaysia. So there is no corporate venturing, the VC industry is conservative and angel funding is missing. The original objective was to kick-start the MSC, spawn off companies and create VCs with expertise in the ICT space. The original strategy was very developmental. But a developmental VC record does not enable them to raise funds from the private sector. So they shifted from developmental to profit oriented VC. Developmental role is secondary.

However when Esmond was appointed CEO, the strategy became more capitalist where the developmental objective is more a by-product of the VC success. Esmond's philosophy is capitalist but he does have experience working for a Singapore fund. The new strategy is called "Action Map". Since Esmond's entry it's not just about what they do but how they do it. It's the depth of experience that Esmond brings.

### 3.3) Strategy and the Ecosystem

They are trying to portray Malaysia as a Silicon Valley type of ecosystem. Silicon Valley is successful because of the lifestyle. Entrepreneurs have a happy time living in Silicon Valley as they make money. Malaysia also has natural beauty and a similar lifestyle. But Malaysia needs to provide the seed funding for the ecosystem to work. The strategy that they push is a "Malaysian based ecosystem" not a "Malaysian ecosystem".

Malaysia is also in the right region, Asean and Asia Pacific. Silicon Valley was a hub; people came from the East Coast and the rest of the world. Similarly Malaysia must be a hub for the region, it can attract talent and money from the West and Asia Pacific. Malaysia can pool the talent from anywhere. The strategy is a common sense strategy, not an American strategy or whatever. The strategy is based on Malaysia's strengths for example its natural beauty. Malaysians also make good project managers, so we need to use our strengths.

#### 4) Investment Model

They don't actually have such a thing as a 'model' because the business world is fluid and if they had a model they will need to be constantly adjusting their model. A myriad number of factors are contributing to or taking away from a formula for success and changing all the time. A contributing factor one day may be a detracting factor another day. It may be different in Private Equity or in regular public listed companies or in mature industries where the changes are not as fast as in the VC industry.

#### 5) Regional Strategy

Some principles may be a good guide but there are cultural barriers. Successful entrepreneurship is the ability to build a successful team. Teams need a balance of followers and leaders, complementing strengths and weaknesses. For MSCVC outside investments must have a tie or a link to Malaysia, it must benefit Malaysia. For example they funded a US marketing company to help market one of their Malaysian investee companies Nexus Edge (Nexus Edge owns the Co and MSCVC funded it via Nexus Edge). So there must be a Malaysian angle.

#### 6) Global Strategy/Models

They don't look at geographic location alone, they also look at legal issues, licensing, taxation, etc. There are many differences but this does not stop them. There are everyday restrictions but they deal with them like a global or international VC firm would. The people they deal with also makes a difference, for example they have a Singapore company but the management is by French nationals and one of their local companies is run by Chinese & US nationals. Cultural issues play a big role too, so they are aware of cultural differences including from a corporate angle.

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### TRANSCRIPT OF INTERVIEW NO. 2

DATE OF INTERVIEW: 17-11-2004      START TIME: 3.30 am END TIME: 4.30 pm

PLACE OF INTERVIEW: Burger King, Sri Hartamas, Kuala Lumpur

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#### 1) Early Failures of MSCVC

MSCVC was not actually successful in the early days because of some poor investments. There were some investments that they didn't want to do but had to do so because of "National Service". Some examples are:

##### a) Worldstocks

They didn't trust the CEO and had problems with the Angel investors. The CEO was a "lifestyle CEO" who liked the title, money and respect but could not deliver. Their networks warned them to be careful but as Investment Manager his objections were overruled without consultation. Sometimes it is put to a vote for example another company, eSmartGolf but not in this case.

##### b) Iris

This was "National Service" and a pre-IPO investment. (It was a national project heavily promoted by the Government). They rejected it 3 times because the gearing was too high and there was insufficient cash flow. They only made a small sum on listing about 3% p.a. The CEO was again a lifestyle CEO and a wheeler-dealer.

##### c) MLabs

The valuation in this company was too high but the CEO was very charismatic. However there was fallout between the CEO and the American CEO (they had an office in America). There were also Corporate Governance issues. The company actually had a lot of potential especially after 9-11 because it was in the video conferencing industry. It was a very people oriented business but problems with the CEO were bad.

d) Smarttransact

Here also there was a problem with the CEO and Corporate Governance issues.

e) Go2020

This company died an honourable death. The business model was a first mover; it was providing enterprise software via the Internet also known as the Applications Service Provider (ASP) model. It failed because of greed. There were 3 VCs who were interested in investing further in the business but there were valuation problems because the Founders wanted more.

**2) Wrong Focus**

They should have cut loss early but the CEO at that time didn't want to take the loss. There was too much focus on solving problem companies. They were recommending to write off the loss in 2002 but didn't. When Esmond came in (mid 2003) he cut off all the loss making companies.

In the early days there was a lot of indecision. But Esmond is very decisive and has good instincts. [Note: Also relevant for the "Management Independence" category].

As the current CEO, Esmond brings a lot of experience from America. [Note: Also relevant for the "Knowledge Sharing" category].

**3) What should be done to be more successful**

- a) Put their foot down, there should be no interference from their parent company (in the case of MSCVC it's the Government).
- b) They should bring more foreign companies over instead of looking for good local companies to appear. This will fast track the growth of companies.
- c) Their industry focus is ok.

REF NO: E1

RECORDING – YES

## GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA

PARTICIPANT NAME: Ang Yoke-Kee

DESIGNATION: Senior Manager & Regional Associate

FIRM NAME: Softbank Emerging Markets - Malaysia

DATE OF INTERVIEW: 29-9-2004      START TIME: 9.20 pm END TIME: 10.30 pm

PLACE OF INTERVIEW: Megamall, Kuala Lumpur

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Some Background on Softbank & its potential investments

##### 1.1) About SBEM

Softbank Emerging Markets (SBEM) started in 1999 and is a joint venture between Softbank Corporation and the International Finance Corporation of the World Bank. The idea was to import technology into Asia with investments in the emerging markets of South and South East Asia (SEA), Turkey, Chile and South Africa. It was started with 5 persons in the US and 7 to 8 persons in SEA. In Malaysia there were 3 main staff, Yoke-Kee as the Senior Manager/Regional Associate, David Low as the Managing Director and Karan Ponnudurai as Vice President/Investment Manager.

##### 1.2) Investment Philosophy

The objective was to invest in ICT investments. Softbank did well in developed countries but had not explored emerging markets.

##### 1.3) Closure of SBEM

SBEM was closed after the 2001 September 11 terrorist attacks in New York. The earlier dotcom & Nasdaq crash in April 2000 also contributed to the decision to close the firm. At the time of closure they were ready to offer terms to 8 companies and all the approvals had been secured. [Note: Also relevant to the "Dealflow" category].

#### 2) Success

##### 2.1) Firm Success

Success is to maximise returns, as this is the overriding yardstick. They would look at 10 times multiples for their successes so they are prepared to make a few bad investments. So they would expect high multiple returns from 1 or 2 out of 10 investments to provide the major returns. This is also dependent on geographic locations as it may be different in different locations but generally this is the multiple that they expect.

The second measure of success was the ability to import technology from America to emerging markets, as that was one of their main objectives. This strategy enabled them to attract a lot of smart people to SBEM because they believed in this concept.

### 3) Success/Failure Factors

One of the most important factors is the availability of adequate dealflow, which is driven by the intensity of technology activities in the markets that they invest in. Government support in making this happen is very important for e.g. MSC in Malaysia and similar support in Singapore & Hong Kong. The availability of an exit is also important although because SBEM is global, they can list their investments elsewhere (other than in Malaysia) so they were not as concerned. But if an exit was available in each market it would be better.

So there must be good demand and supply in the economy as this ensures that there will be a lot of dealflow.

Dealflow at that time (1999 to 2001) was good with many younger companies. But now dealflow is less and very often they are the same deals that keep being recycled, they are the same companies still looking for funding.

### 4) Investment Strategy

Softbank has a huge portfolio of investments so it can benchmark and learn from previous successes and failures of their portfolio in other markets for example in the US or Korea. [Note: Also relevant for "Market Knowledge & Continuous Learning" category]. This critical mass of portfolio allows this comparison and learning and is one of the unfair advantages that Softbank has.

They also look for synergy with their existing investments. They can match their emerging market investees with others that they have in say US or Korea and can create greater synergies and grow the businesses.

There is also a lot of sharing of information between their experts at their US headquarters, which helps them to benchmark the deals that they have with their existing database of deals as well as their existing portfolio of investments.

### 5) Investment Models

There is no particular "model" but they have a methodology. It's a process with a checklist. It's not a hardcore formula but more a suggested framework or guideline. This includes guidelines for valuation as well. Also important is the role that Softbank plays in the management of the company. They will influence the company and they believe the path to success will be shortened for e.g. for Viztel they could have used their contacts to grow the business and achieve greater success. Viztel is doing well but with their networks and contacts they could have shortened the time frame for Viztel and done more business as well. SBEM also has networks, expertise and seasoned professionals who work globally and can advise their companies. [Note: Also relevant for the "Expertise & Knowledge Base" category].

### 6) Cultural Issues

Cultural issues are not a problem because he is a local. He lived and studied in Malaysia and Singapore. But even their foreign partners have worked globally and are seasoned professionals so they will be able to adjust. Also because they are VCs they can virtually do what they want. If companies need the money they will take it. Unless if Softbank is looking for government business then it may be an issue but it is a VC firm so this is not a problem.

### 7) Main cause of failure

So the ultimate cause of the failure or rather closure of SBEM were the external shocks of great magnitude within a short span of time – the dotcom bubble and 9-11. This is what caused the closure and not other issues as they had adequate dealflow and had many potential investments.



**GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF SOUTH EAST ASIA****PARTICIPANT NAME:** Karan Henrik Ponnudurai**DESIGNATION:** Investment Manager**FIRM NAME:** Softbank Emerging Markets - Malaysia**DATE OF INTERVIEW:** 19-11-2004      **START TIME:** 10.00 am **END TIME:** 12.30 pm**PLACE OF INTERVIEW:** Celcom Towers – Jalan Gurney, Kuala Lumpur

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**TRANSCRIPT OF THE INTERVIEW****1) Some Background on Softbank & its potential investments****1.1) About SBEM**

Softbank Emerging Markets (SBEM) is a joint venture between Softbank and the World Bank. The concept was to invest in the emerging markets of Asia and this included India, Thailand, Singapore and Malaysia. Softbank is an active participant in the Board of their investees. They are industry experts. For example VCs in the US were operational people – engineers, people who developed technology. The difference between Softbank and the competition was the industry expertise and domain knowledge within Softbank.

**1.2) Investment Philosophy**

SBEM had an active investment philosophy. They also cannot invest in too many companies. There were only 5 investment professionals and each would do 4, leading to a total of 20 possible deals for the firm. Most VC firms were staffed or dominated by finance people, not industry people, unlike Softbank. In SBEM Malaysia, both Karan and the CEO, David Low had industry expertise. They had the experience of building ecosystems and networks and were able to connect with key people. [Note: Also relevant to "Market Knowledge & Continuous Learning" and "Networks" categories]. For example one potential investment was Viztel Telecommunications a deal that was almost done (except that SBEM closed before it was completed). They could have grown it to a much bigger company.

**1.3) Closure of SBEM**

Softbank the parent company closed all its operations in the US, Asia South and Latin America to concentrate its focus in Korea, Japan and on Broadband in North Asia. In Malaysia they were close to completing 5 investments before SBEM was closed. So the main reason for the closure was to focus on Broadband in Korea and Japan.

**1.4) Companies in Malaysia & their Mindset**

The philosophy behind the founding of companies has changed. For example when HP was founded, its philosophy was to build the company and contribute to the community, not to cash out. They didn't look at the short term opportunity to wealth. Today there is very little intent and passion for the industry. This is bad for the economy in general. It is different from the old Chinese mindset of building companies as a legacy not as a "build and flip" concern. For example ISC Limited makes software for insurance companies. It had a legacy philosophy and did not start the business just to flip it.

The CEO of Viztel, Lau Kin Wai, however, did not understand how to grow the company significantly. VCs in the USA in the early 1970s and 1980s were historically also long term investors for example HP and Cisco also had long-term view and were not just to flip.

In the National context, Mesdaq has about 50 companies but we do not have a sustainable ICT industry in Malaysia. More like Entrepreneurs who only create wealth for themselves. The exuberance of the 1990s has changed the mindset of people, the motivation has changed, its seen as an easy path to money. Its like "myth creation", understand the psychological aspect of the company and build a myth of the "rock star" CEO.

## **2) Success**

### **2.1) Firm Success**

The measure of success is:

- ☐ Return on invested capital,
- ☐ The number of deals done (although VCs may invest in stupid deals to reach such target)  
For Softbank this target was 10 deals in 2 years per investment manager.

### **2.2) Personal Success as a Venture Capitalist**

The growth in profitability of the firm and the investments.

## **3) Success/Failure Factors**

The ability to scale their investments is a necessity for success. The educational capability of the nation, which allows the investee to hire enough engineers and to accommodate the organic growth of the company. The US is successful because they can hire many smart people.

## **4) Investment Strategy**

The strategy is an "industry strategy". SBEM identified 3 areas within ICT for investments:

- ☐ Middleware technology where the focus is in medical and manufacturing i.e. the core competences in Asia
- ☐ Mobile device technology
- ☐ Speech technology – there is potential in Asia because of the range of languages

Softbank in general didn't have one, but based its strategy on discussions with individuals in each Softbank office. There is no structured formulation of strategy. This is also the case even in other VCs e.g. Steve Jurvetson. Vinod Khosla even patents trends that he sees. Karan also speaks Hebrew thus he understands Israeli technology trends. Israeli companies are mature and qualitatively well run.

## **5) Regional Strategy**

It is possible to use the same strategy in regions, for example Amoeba in India and dotcom ERP in Singapore were SBEM investees.

## **6) Investment Models**

There were no investment models used other than standard term sheets. A lot depends on personal chemistry.

REF NO: F1

RECORDING – NO

**EXPLORING THE FACTORS THAT DETERMINE THE SUCCESS OF GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF ASIA USING A GROUNDED THEORY APPROACH**

**PARTICIPANT NAME:** Jason Ng

**DESIGNATION:** Former VP & Country Manager

**FIRM NAME:** Transpac Capital (Malaysia)

**DATE OF INTERVIEW:** 17-11-2004      **START TIME:** 12.30 pm **END TIME:** 2.15 pm

**PLACE OF INTERVIEW:** Petaling Jaya

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**TRANSCRIPT OF THE INTERVIEW**

**1) Background**

Pre 1997 (i.e. before the Asian Crisis) Transpac was investing in traditional industries. It was seriously affected by the crisis and had to make a lot of investment write-downs. Post 1997 it was not really investing. The investments were in matured industries – resource based, technology and marketing or consumer products industries.

In 1997 shifted focus & decided to build 'platform companies', i.e. making major acquisitions with majority stakes (like Private equity investments). But VCs have no expertise in this type of investments. They don't have the experience and the knowledge for such investments. [Note: This last point is also relevant for "Expertise & Knowledge Base" category]. To make such acquisitions they must have industry knowledge and domain expertise. [Note: This point is also relevant for the "Market Knowledge" category].

Strategy

The firm has in-house experts and worked with multinational corporations or have industry contacts to source deals. They had to identify key industries and then do research on these industries including looking at trends, SWOT and identify companies to acquire. It was VCs trying to do private equity, acquiring controlling blocks but having no expertise. VCs were running the companies, recruiting people, etc. In China the mentality is quite different. Transpac did badly in China because of poor management culture and legally the system was not good. The key is the people [i.e. the managers in their investee companies]. In China the investee company managers were not loyal to the investors they were more interested in making money on their own.

Transpac was a regional fund. The headquarters would compare the returns, in Taiwan the IRR was 70% based on projections but in Malaysia the IRR was only 30%, so on that basis Malaysia looks less attractive. Better to have country specific funds instead of regional funds so that such comparisons don't have to be made. For example Walden has a country specific fund – BI Walden Malaysia.

**2) Success**

Generally to be successful VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry. [Note: This point also relevant for the "Dealflow" and "Networks" category]. Walden for example worked with industry people and

obtained information from these industry people. In investing the people behind the company are the most important, especially the Founders and the CEO. Transpac didn't have enough domain expertise as most of the team were electronics based and the new intakes were telecoms based. During the dotcom days the President didn't understand it so they stayed out of the dotcoms. They were very brick and mortar based.

#### 2.1) Firm Success

Measure success by the ability to identify investments and then manage to exit profitably.

#### 2.2) Personal Success for the VC

This is measured on how much returns can be generated for investors. To raise further funds, you need to show profits. In the case of his new fund (Expedient Equity), it is also developmental so there is a conflict with a pure profit driven, but still the key is to be financially profitable because to raise future funds you need to show good returns. In future raising funds is going to be very difficult. Expedient's current investments will be more local with a local exit unlike Transpac, which had to look at a regional basis.

#### 2.3) How deals are done at Transpac

There is a fortnightly deal meeting in Singapore where the investment managers must defend the deals that they bring to the meeting. In Transpac much depends on the President liking the deal. [Note: This is also relevant to the "Management Independence" category] It is a very autocratic way of deciding on deals. There is pride that in Transpac due diligence is very thorough, but it is too tough. There are too many questions and it is too difficult.

### **3) Success/Failure Factors**

#### 3.1) Key Factors

Doing deals in Malaysia is not difficult, but the Entrepreneurs perception of the VC's role is that the VC wants to interfere. There are also different accounting books and tax avoidance and evasion issues. The NEP (the Government's New Economic Policy that provides special benefits to Bumiputras) makes it very difficult for foreign investors. This is especially the case for pre-IPO or mezzanine funding because on listing 30% of the IPO must be reserved for Bumiputras. This makes it difficult for foreign VCs except for a Mesdaq listing which does not have such requirement. But NEP still affects Main and Second Board listings. However, the people behind the company are still the most important.

### **4) Investment Strategy**

The strategy is a platform investment strategy – take majority stakes and build regional companies or also known as the 'buy & build' strategy (akin to Private Equity).

#### 4.1) Regional Strategy / Regional Model

Transpac used to have a US outfit but when everyone was investing in the US they pulled out of the US because they didn't see the growth and thought that Asia was the region to look at. The President believed that Asia is the place to be, India, China and Malaysia. Transpac had one strategy for the Asian region and it works ok as a regional strategy. Buy and build can work on a regional basis. However Entrepreneurs are different especially management culture but they must have domain expertise. So a Global Model is more difficult.

### **5) Investment Model**

There is no such model

### **6) Transferability of Models**

This can be done on a regional basis. The buy & build strategy must have internal expertise, if not chances of failure are high. Transpac people have MNC experience but in small firms it is not the same.



# Appendix C1 – Within Case Pattern Matching of Interview Data with Triangulated Data (BCEA)

(A) BARING COMMUNICATIONS EQUITY ASIA										
	Interviews	Management Team			Company Archives					
		Biodata			Investments			Geographic Reach		
	Yong Thian Tze & Peter Chan	Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Association / Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices	Regional Investments
(i) Intangible Resources										
a) Management Team Experience	Domain experience is relevant to success	Strong support, well experienced.	Strong support worked in VC funds & industry	No support	Strong support - multiple portfolio within focus industry in multiple countries	Strong support - several IPOs	Strong support - investment space fits team's experience	Strong support - Mgt team has wide experience in countries within geographic focus	Strong support - multiple offices covers region broadly with experienced mgt	Strong support. Investments covers the region & fits investment space
b) Expertise & Knowledge Base	Importance of team's expertise & knowledge base related to their industry focus emphasised.	Strong support. Wide expertise in focus industries & strong knowledge base in the team.	Strong support - team worked in many different firms regionally - shows multiple expertise & wide knowledge base	No support	Strong support - investments match expertise & knowledge base	Strong support - multiple listings within domain of expertise	Strong support - investment space fits team's expertise & knowledge base	Strong support - Mgt team expertise & knowledge fits geographic focus	Strong support - multiple offices with many experts	Strong support - Mgt team expertise & knowledge base fits investment regional investments portfolio & space
c) Knowledge Sharing	Extensive knowledge sharing between partners - sharing ideas, thoughts & opinions on investments.	Strong support. With management team spread around the region in 15 countries indicating propensity to cooperate.	Not Relevant (NR)	No support	NR	NR	NR	NR	Strong support - with wide spread of offices propensity to cooperate is strong	Strong support. Wide involvement in regional investments shows propensity for knowledge sharing areas
d) Market Knowledge & Continuous Learning	In-depth knowledge, sharpening of skills & continuous learning and adapting to the market is reinforced by the Partners.	Strong support. Team is diversified, wide experience, multilingual. Multiple qualifications indicate propensity to continue learning.	Strong support - team worked in variety of firms showing wide market knowledge esp in multiple industries. Multiple qualifications & languages of team shows continuous learning	No support	Strong support - wider portfolio of investments involved in means more market knowledge	Strong support of market knowledge with several IPOs in multiple countries	Strong support - investment space fits market knowledge	Strong support - experience in wider geographic focus increases market knowledge	Strong support - greater number of offices in many countries increases market knowledge	Strong support - greater experience in regional investments shows good market knowledge
e) Independence of the Management Team	Firm is independent in decision making.	Moderate support. Management independence difficult to validate.	NR	No support	NR	NR	NR	NR	Moderate support. Regional team is fairly spread out but independence difficult to validate.	Moderate support. Team is fairly senior with strong multinational team across the region. Unable to fully validate independence of management.
(ii) Dealflow										
a) Identifying and securing deals	Partners indicate the importance of identifying successful investments and securing dealflow.	Strong support shown by team's work in multiple successful firms & having successful investments at prior firms	Strong support. Experience in different successful firms with successful investments & exits & also in industry	No support of memberships in different organisations	Strong support - large portfolio of investments shows greater propensity to identify & secure deals	Strong support - Several successful IPOs & M&As	Strong support - large number of deals within their investment space	Strong support - large number of deals within their geographic focus	Strong support - wide network of offices with successful investments	Strong support. Team has shown ability to identify and secure deals regionally with successful regional investments exits



b) Availability of deals in the market	Availability of dealflow & opportunities in Asia are reasons for setting up new fund. Note that European market is maturing and lacks adequate dealflow.	Not Relevant (NR)	NR	NR	Strong support. Large number of portfolio investments shows availability	Strong support. Many IPOs and M&As provide strong support of deal availability	Strong support. Large number of deals within their investment space	Strong support. Large number of deals within their geographic focus	Strong support. Wide network of offices with successful investments	Strong support. Many regional investments	Strong support. Firm has done a lot of deals within their space & geographic focus as well as regionally.
		(III) Exits									
Viability of Exits in the Market	Viability of exits in each market is the key decision for them to invest there. Active capital markets are emphasised.	Not Relevant (NR)	NR	NR	NR	Strong support. Large number of IPOs and M&As - shows strong support of exit viability	Strong support. Many of their investment markets have viable stock markets including a technology exchange.	Strong support. Successful exits by their regional offices.	Strong support. Large number of IPOs & M&As in regional investments	Strong support. Firm has many exits in their space, geographic focus & several done by the regional offices	
		(IV) Networks									
Value of Networks	Networks are invaluable for success - emphasised by the phrase their "roots are deep".	Strong support. Team has worked in multiple successful firms & has had successful investments & exits	Strong support. Team has experience in different successful firms	No support. No information of memberships.	Strong support. Invested in a wide portfolio of investments showing good networks	NR	NR	Strong support. The wide network of offices/regional investments & multiple investments shows good by these offices	Strong support. The ability to invest in a wide portfolio of regional investments shows good networks	Strong support. There are a lot of investments with successful exits & wide work experience indicating good networks	

## Appendix C2 – Within Case Pattern Matching of Interview Data with Triangulated Data (BI Walden)

(B) WALDEN INTERNATIONAL INVESTMENT GROUP													
	Interviews	Management Team			Company Archives					Interviews	Investees & Potential Investees	Conclusion	
		Biodata		Association / Society Memberships	Investments				Geographic Reach				
		Experience, Domain Knowledge & Expertise	Worked in Variety of Firms		Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices				Regional Investments
(i) Intangible Resources													
a) Management Team Experience	Chok Kwee Bee, Cindy Tee & Chong Chee Khen	Experience of the partners is one of the keys to their success. Founder is deemed a visionary.	Strong support. Wide experience within area of investment focus. Very experienced Technical Advisory Board.	Strong support. Partners have wide experience in industry & many years in VC industry.	Strong support. BU is Board member of NVCA & Trustee of Uni San Francisco. Kwee Bee is President of MVCA	Strong support. Very wide portfolio of investments in focus area	Strong support. Many successful IPOs & M&As in major markets incl. US NY & Nasdaq shows greater experience	Strong support. Investment space fits team's experience	Strong support. Geographic focus matches experience	Strong support. Wide experience of managers in network of offices equates to more experience	Strong support. Regional investments match experience of managers. Successful regional IPOs boost validity of experience	Yes, especially the Founder.	Strong support. There is overall validation. Mgt team is very experienced in VC investing, successful exits and global investments.
			Strong support of expertise in focus industries & strong knowledge base in the team	Strong support. Partners have many years experience in multiple firms from industry to finance. Not as much in other VC firms.	Strong support. Leadership positions in VC Associations validate expertise	Strong support. Greater the support of expertise & knowledge	Strong support. Investment space fits team's expertise	Strong support. Geographic focus matches experience & knowledge	Strong support. Multiple offices with diverse team shows greater expertise & knowledge base.	Strong support. Regional investments match experience of managers. Successful regional IPOs boosts validity of expertise & knowledge base	Yes especially the US office	Strong support. There is overall validation of expertise & knowledge. Multiple exits globally & expertise in focus industries is very clear.	Diversity of offices led by an experienced Founder. Regular meetings of mgt team show knowledge sharing in the group
c) Knowledge Sharing		Sharing of Information & knowledge among the partners and their various offices is important & done via regular meetings.	Strong support. Management team spread around the region have wide experience. Unable to confirm regular meetings based on data available.	NR	NR	Strong support. Directorships in wide portfolio shows propensity for more knowledge sharing	NR	NR	NR	Strong support. Wide spread of offices increases propensity to share knowledge	Strong support. Wide involvement in regional investments shows propensity for knowledge sharing	No comments	
d) Market Knowledge & Continuous Learning		Use of external opinions & experts shows relevance of market knowledge & expertise & is part of process of continuous learning.	Strong support. Team is diversified with wide expertise & knowledge. Multiple listings in multiple countries. Multiple qualifications also indicate propensity for continuous learning.	Strong support. Wide experience & scope of firms worked in. Wide industry experience.	Strong support. Leadership positions in VC Assn means continuous learning & more market knowledge	Strong support. Wide portfolio of investments increases and shows greater market knowledge	Strong support. Wide portfolio of IPOs and M&As equates more market knowledge	Strong support. Wide experience in their investment space shows more market knowledge	Strong support. Experience in wider geographic focus increases market knowledge	Strong support. Greater number of offices & diverse investments shows increased market knowledge	Strong support. Greater experience in regional investments shows increased market knowledge	No comments	Strong support of market knowledge and continuous learning shown among management. Moderate support. Difficult to prove independence other than high ranks of managers. Interview data indicates support of independence.
e) Independence of the Management Team		Role of each country manager & local knowledge in formulating strategy is important	Strong support. Country managers are MDs. There are also separate country funds in JVs not just a global fund.	NR	NR	NR	NR	NR	NR	Strong support. Management have high ranking positions & offices widely spread out	No support. Unable to show if team has ability to make decisions for own regional investments	No comments	
(ii) Dealflow													

(ii) Dealflow

a) Identifying and securing deals	Ability of partners & managers in identifying dealflow & expertise in dealmaking important for firm's success.	Strong support. Many years of VC experience & successful exits for senior mgt & Founder. Team also worked in senior positions in industry.	Strong support. Team both worked at & are on the board of many cos.	Strong support. Leadership of key associations provides extra avenue to identify deals.	Strong support. Very large portfolio of investments shows greater ability to identify & secure deals.	Strong support. Many IPOs and M&As provides strong support in identifying & securing deals.	Strong support. Large number of deals within their investment space shows ability to identify & secure deals.	Strong support. Large number of deals within their geographic focus shows ability to identify & secure deals.	Strong support. Wide network of offices with successful investments indicates ability to identify & secure deals.	Strong support. Large number of regional investments shows greater propensity to identify & secure deals.	Strong support. Firm has shown great propensity to identify & secure deals.
	Dealflow is crucial for Walden. Will leave the country if there's no adequate dealflow. No geographical restriction in seeking dealflow.	NR	NR	NR	Strong support. Large number of portfolio investments shows support of deal availability.	Strong support. Many IPOs & M&As indicate strong support of deal availability in their markets.	Strong support. Large number of deals within their investment space is support of deal availability.	Strong support. Large number of deals within their geographic focus is support of deal availability.	Strong support. Wide network of offices with successful investments indicates greater deal availability.	Strong support. Large number of regional investments shows availability of deals.	Strong support. Firm has a lot of deals in their space & geographic focus.
b) Availability of deals in the market	The availability of exit mechanism - IPOs and trade sales - is an important consideration.	Strong support. Team managed many successful exits including some of the largest in Hong Kong, Malaysia & USA.	Strong support. Managed to exit investments while working in other firms.	NR	NR	Strong support. Large number of IPOs and M&As is strong support of exit viability.	Strong support. Many investment markets have viable stock markets including a technology exchange.	Strong support. Success of their offices in IPOs & M&As show exit viability.	Strong support. Firm has been listed on Mesdaq. Shows support of exits.	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus.	Strong support. Firm has a lot of exits in their space & geographic focus.
	Strength & value of network is key to success. Helped ensure success of their Asian companies in USA. Value of network also a measure of personal success for the VC.	Strong support. Country manager is investment banker involved in 100 IPOs. Partners have strong industry networks & worked in several different firms. Technical Advisory Board has excellent experience & networks.	Strong support. Experience in successful firms in VC, finance & industry.	Strong support. Leadership positions in VC associations & Founder is even a University Trustee.	Strong support. Wide portfolio of investments shows good networks.	NR	NR	Strong support. Wide network of offices & multiple investments by these offices shows greater propensity to network.	Strong support. Wide portfolio of regional investments shows good networks.	Strong support. Many investments with successful exits and wide work experience showing good networks.	Strong support. Many investments with successful exits and wide work experience showing good networks.

Appendix C3 – Within Case Pattern Matching of Interview Data with Triangulated Data (H&Q Thailand)

	(C) H&Q THAILAND LTD									
	Interviews		Management Team			Company Archives				
			Biodata			Investments				
	Virapan Pulges & Patan Somburanasin	Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Association / Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices	Geographic Reach
			(I) Intangible Resources							
a) Management Team Experience	Not mentioned in interview but confirmed in written comments that experience is crucial for success	Moderate support. Country team has no other VC experience & only MD has senior industry experience. Other partners have vast experience.	Some support. Team did not work in too many firms but has industry experience	Strong support. MD is Past President of Thai VCA.	Moderate support. Portfolio of investments in Thai not wide enough to indicate greater experience	Strong support. Group has many IPOs & M&As showing greater experience	Strong support. Investment space fits team's experience	Strong support. Geographic focus matches experience	Strong support. Regional managers have wide experience	Strong support. Investments match experience of regional managers. Many successful regional IPOs
b) Expertise & Knowledge Base	Not mentioned in interview but confirmed in written comments that expertise & knowledge base is crucial for success	Moderate support. Country team has good engineering expertise but does not fully match focus industries but other partners have vast expertise. Advisory committee provide extra expertise.	Some support. No experience in other VC funds but MD had high level management position in industry	Strong support. MD is Past President of Thai VCA.	Strong support. Portfolio matches expertise in engineering	Strong support. Group has many IPOs & M&As within their expertise. Two in Thai.	Strong support. Investment space fits team's expertise	Strong support. Geographic focus matches expertise & knowledge	Strong support. Regional investments match expertise of managers. Many regional IPOs	Strong support. Overall validation that expertise & knowledge necessary for success. The firm has a lot of expertise & knowledge though the country team expertise is somewhat limited
c) Knowledge Sharing	Knowledge sharing is important to their strategy formulation.	Strong support. Management team spread around the region, wide experience & regular meetings indicate propensity to share	NR	NR	Moderate support. Some Directorships but not in a wide portfolio	NR	NR	NR	Strong support. Wide spread of offices increases propensity to share knowledge	Strong support. There is adequate support that there is knowledge sharing in the group
d) Market Knowledge & Continuous Learning	There is some indication of market knowledge & there is active learning	Moderate support. Country team does not have wide expertise & knowledge but have multiple qualifications. But other partners have wide expertise & knowledge.	Some support. Scope of work, experience not wide. Market knowledge would be limited	Strong support. Membership of Thai VCA can mean continuous learning & more market knowledge	Moderate support. Portfolio of investments involved in not wide	Strong support. Group has wide portfolio of IPOs and M&As but only 2 in Thai	Moderate support. Group has experience in investment space but Thai experience is limited.	Strong support. Experience in wider geographic focus increases market knowledge	Strong support. Greater number of offices increases market knowledge	Strong support. Regionally the firm has wide market knowledge and shows continuous learning among management
e) Independence of the Management Team	There is clear management independence as local managers make all strategic decisions.	Moderate support. Senior manager is a MD. Other offices also have senior positions. Some management independence is likely	NR	NR	NR	NR	NR	NR	Strong support. Regional managers are MDs - high level senior mgt experience. Offices widely spread	Moderate support. There is adequate support of management independence
			(II) Dealflow							

a) Identifying and securing deals	There is a conscious strategy of identifying opportunities and dealflow	Moderate support. Several successful investments & exits shows support of ability to identify & secure deals	Some support. Not much experience in different successful firms but senior position in industry	Strong support. Leadership of Thai VC association provides extra revenue to identify deals.	Strong support. Large portfolio shows it can identify & secure deals though not in Thailand which has only 3 deals	Strong support. Group has many IPOs and M&As provides strong support in identifying & securing deals	Strong support. Group has many deals in investment space shows ability to identify & secure deals	Strong support. Wide network of offices with successful investments indicates ability to identify & secure deals	Strong support. Large number of regional investments shows greater propensity to identify & secure deals	Strong support. Firm has shown great propensity to identify & secure deals though deals in Thailand are more limited
	Lack of dealflow in their market is clearly recognised leading to changes in geographic focus	NR	NR	NR	Strong support. Group has large portfolio shows support of deal availability though not in Thailand which has only 3 deals	Strong support. Group has many IPOs & M&As indicate strong support of deal availability in their markets	Strong support. Group has large number of deals within their investment space - support of deal availability	Strong support. Wide network of offices with successful investments indicates greater deal availability	Strong support. Large number of regional investments shows availability of deals	Strong support. Firm has a lot of deals in their space & geographic focus though deals in Thailand are more limited
(iii) Exits										
Viability of Exits in the Market	Major focus on IPOs & acquisitions esp. on amount of returns on exits. Exits are clearly important	Strong support. Team managed many successful exits.	No support. Did not work in VC industry previously	NR	NR	Strong support. Large number of IPOs and M&As is strong support of exit viability	Strong support. Many of their markets incl. Thailand have a viable stock market	Strong support. Success of their offices in IPOs & M&As show exit viability	Strong support. Large number of IPOs & M&As in regional investments	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus
	Importance & use of networks for sourcing & growing investments are mentioned.	Moderate support. Thai MD little VC experience but other partners have vast experience & strong industry networks, worked in different firms. Advisory Committee has excellent experience & networks.	No support. Thai team has limited experience in different companies	Strong support. Leadership position in Thai VC association	Strong support. Group has wide portfolio of investments - shows good networks	NR	NR	Strong support. Wide network of offices & multiple investments by these offices shows greater propensity to investment network.	Strong support. Wide portfolio of regional investments shows good networks	Strong support. Many investments with successful exits and group has wide experience showing good networks
(iv) Networks										
Value of Networks										



## Appendix C4 – Within Case Pattern Matching of Interview Data with Triangulated Data (MSC Venture Corp)

	ID, MSC VENTURE CORPORATION									
	Management Team					Company Archives				
	Interviews	Biodata		Investments		Geographic Reach		Network of Offices		Conclusion
	Esmond Goi, Husni Salleh & Alan Tan	Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Assocn/Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Regional Investments	
(i) Intangible Resources										
a) Management Team Experience	The depth of experience is critical to firm success	Strong support of management experience in VC and industry.	Strong support. Team has worked in multiple VC funds & in cos. The CEO was also a founder of cos. related to their focus.	No support	Strong support. Wide portfolio of investments in focus area indicates greater experience.	Strong support. Many IPOs denote greater experience. CEO has additional IPO experience.	Strong support. Investment space fits team's experience	Strong support. Geographic focus matches experience especially CEO.	No support. Single office location.	Strong support. There is overall validation of experience. Team & CEO have vast experience in VC & industry
b) Expertise & Knowledge Base	The expertise & domain knowledge of the VC is an important factor in success.	Strong support of expertise in focus industries & good knowledge base in the team	Strong support. Team has expertise in their focus areas having worked in the VC industry globally and in tech industry. Valid the confirmation of expertise & knowledge	No support	Strong support. Portfolio matches expertise of senior managers especially the CEO	Strong support. Many IPOs within their expertise - shows greater support of expertise & knowledge	Strong support. Investment space fits team's expertise	Strong support. Geographic focus matches expertise & knowledge	Moderate support. Several regional investments show relevance of their expertise.	Strong support. There is overall validation of expertise & knowledge. Team & CEO show strong support of expertise & knowledge in VC, entrepreneurship.
c) Knowledge Sharing	The firm engages in knowledge sharing bet. management & policy makers	Moderate support. A one country fund but investments geographically spread out & senior manager is part of the government's national technopreneur development programme with links to the Govt	NR	NR	No support. Unable to verify from public documents	NR	NR	NR	Moderate support. A few regional investments shows propensity for knowledge sharing is not extensive	Moderate support. There is some support of knowledge sharing in the firm but as it is a single country fund sharing is not extensive
d) Market Knowledge & Continuous Learning	VC plays a role in helping their investee Co using their market knowledge. There is support of continuous learning.	Strong support as team is diversified with wide expertise & knowledge. Multiple qualifications also indicate propensity to continue learning.	Strong support. Wider experience & scope of firms worked in indicating propensity for greater market knowledge esp. in tech industry.	No support	Strong support. Wide portfolio of investments denote more market knowledge	Strong support. Wide portfolio of IPOs and M&As means more market knowledge	Strong support. Wide experience in their investment space shows more market knowledge	Strong support. Wider geographic focus indicates increased market knowledge	Moderate support. Some experience in regional investments shows market knowledge	Strong support. There is good support of market knowledge and continuous learning among management
e) Independence of the Management Team	Structure of management team & the autocratic style of former CEO created problems. Decisiveness of new CEO noted.	Strong support. As a single fund management is independent, they only have to report to their investor, the Malaysian government.	NR	NR	NR	NR	NR	NR	Moderate support. There is independence but it is a single country local firm.	Strong support. This is however self evident bec it is a single country fund & only reports to its investors, the Government.
(ii) Dealflow										
a) Identifying and securing deals	Identifying good dealflow is critical for the success of the firm.	Strong support. Team has worked in multiple successful firms & CEO globally. Also have successful investments & exits at prior firms.	Strong support. Experience in different successful firms both VC & industry with successful investments & exits	NR	Strong support. Larger portfolio of investments shows greater propensity to identify & secure deals	Strong support. Many IPOs provides support of ability to identify & secure deals	Strong support. Large number of deals in investment space shows ability to identify & secure deals	Strong support. Larger number of deals in geographic focus shows ability to identify & secure deals	Strong support. Large number of regional investments shows greater propensity to identify & secure deals	Strong support. The firm has clearly demonstrated its ability to identify and secure deals

b) Availability of deals in the market	There is moderate corroboration that availability of dealflow in choice of market is important.	NR	(III) Exits	NR	Strong support. Larger number of portfolio investments shows support of deal availability	Strong support. Many IPOs provide support of deal availability in their markets	Strong support. Large number of deals in their investment space is support of deal availability	Strong support. Large number of deals within geographic focus is support of deal availability	No support. Single country fund.	Strong support. Large number of regional investments shows greater availability of deals	Strong support. The firm has many deals in their space & geographic focus showing availability of deals in the market.
Viability of Exits in the Market	The value of having a Stock Market for exits is very important	Strong support. Team managed many successful exits.	(III) Exits	Strong support. Managed to exit investments while working in other firms	NR	Strong support. Many successful IPOs - strong support exit viability	Strong support. Malaysia has viable stock markets including a technology exchange.	No support. Single office, single country fund.	No support. No regional IPOs & M&As as it is single country fund.	Strong support. Firm have many exits in their space & geographic focus	
Value of Networks	Value of personal networks is a key to success. Use networks to get deals & for expert advice before investing.	Strong support. Team worked in many successful firms & have successful investments & exits at prior firms	(IV) Networks	Strong support. Team has experience in different successful firms with successful investments & exits	No support	Strong support. Firm invested in a wide portfolio of investments showing good networks	NR	NR	No support. Single office, single country fund.	Strong support. Invested in wide portfolio of regional investments - good regional networks	Strong support. Many investments with successful exits and wide work experience showing good networks

# Appendix C5 – Within Case Pattern Matching of Interview Data with Triangulated Data (SBEM)

(E) SOFTBANK EMERGING MARKETS													
Management Team			Company Archives										
Interviews			Biodata			Investments			Geographic Reach		Interviews		
Ang Yoke Kee & Karan Ponnudurai			Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Assocn/Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices	Regional Investments	Investees & Potential Investees	Conclusion
a) Management Team Experience	Prior experience of the firm & industry management team is important	Moderate support. Team is fairly experienced but in finance & telco not in their domain of Internet expertise.	(I) Intangible Resources										
			Some support. Mgt worked in industry & financial sector. No VC experience. In Internet or as entrepreneurs. Limited work in other tech industry except for telco.	No support	No support as there were no investments made	No support. No related IPOs & M&As	Some support. Investment space somewhat fits team's experience esp. telco & wireless but not Internet as team has no such experience	Some support. Team has worked in region but not in investment or VC nor in their industry focus	No support. Only other office in Poland closed without any investments or real activity	No support. No investments made	Do not think the mgt's have experience. Had problems with indecision of mgt's	Some support. Little support of mgt experience. Experience inadequate & only in finance & telco. No VC or investment experience & esp. no Internet experience, their focus area.	
			Some support. Team has expertise in telco but not in their focus industry of Internet & software. Knowledge base is not evident for their focus area.	No support	No support as there were no investments made	No support. No IPOs & M&As within their expertise	Some support. Investment space somewhat fits team's expertise eg. telco & wireless but not Internet as team has no such experience	Some support. Geographic focus somewhat matches expertise & knowledge because of earlier work background	No support. No other partner with expertise has been known to be active in the firm	No support. No investments made	Investees unconvinced by expertise of country managers but believe in the global expertise in finance & telco	Some support. There is insufficient expertise & knowledge in VC or Internet industry their focus area. Only expertise is in finance & telco	
b) Expertise & Knowledge Base	Industry expertise and domain knowledge within the firm is important	No support. Team reports to their US office but there are no senior managers specifically identified to assist them. Malaysia is first of 5 regional groups but firm failed before other offices were properly set up.	NR	NR	No support as there were no investments made	NR	NR	NR	NR	No support. Only other office closed within months of launching.	No support. No investments made	No comments	No support of knowledge sharing. Only other office in Poland closed within months. No indication of other Softbank partners being active in SBEM
c) Knowledge Sharing	Extensive sharing of info between mgt & their US HQ experts & other offices	Some support. Team is not adequately diversified mostly only financial & telco knowledge. Qualifications related to finance & telco. No indication of propensity to continue learning.	NR	NR	No support as there were no investments made	No support. No portfolio of IPOs and M&As so no additional market knowledge	Some support. Team has minimal experience in their investment space	Some support. Team has worked in Asia but not in VC or relevant industry except for Telco.	No support. No investments made	No support. No indication of independence as both offices closed by head office. Staff had no say in closure decision.	No support. No investment decision was dependent on parent firm. Slow decisions for their own regional investments. Did not tell them abt closure decision	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision	
d) Market Knowledge & Continuous Learning	Benchmarking & learning from prior investments, building ecosystems & networks confirms market knowledge & continuous learning	No support. Senior person is a Regional Associate, not indicative of independence in mgt. Decision to close firm made elsewhere. Managers had no say. Indicates no	NR	NR	No support as there were no investments made	No support. No portfolio of IPOs and M&As so no additional market knowledge	Some support. Team has minimal experience in their investment space	Some support. Team has worked in Asia but not in VC or relevant industry except for Telco.	No support. No investments made	No support. No indication of independence as both offices closed by head office. Staff had no say in closure decision.	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision	
e) Independence of the Management Team	There was NO independence - all decisions made by US HQ.	No support. Senior person is a Regional Associate, not indicative of independence in mgt. Decision to close firm made elsewhere. Managers had no say. Indicates no	NR	NR	No support as there were no investments made	No support. No portfolio of IPOs and M&As so no additional market knowledge	Some support. Team has minimal experience in their investment space	Some support. Team has worked in Asia but not in VC or relevant industry except for Telco.	No support. No investments made	No support. No indication of independence as both offices closed by head office. Staff had no say in closure decision.	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision	



# Appendix C6 – Within Case Pattern Matching of Interview Data with Triangulated Data (Transpac)

(F) TRANSPAC CAPITAL LTD													
Interviews			Management Team			Company Archives							
			Biodata		Investments			Geographic Archives					
			Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Assocn/Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices	Regional Investments		
			(i) Intangible Resources									Interviews & Potential Investors	Conclusion
	Yeo Tien Kiong & Jason Ng												
a) Management Team Experience	The lack of experience in their investment domain led to failure for the firm.	Moderate support. Team is experienced but not in their domain of expertise.	Moderate support. VP has experience in other VC funds & in industry but other manager has no VC experience	No support.	Some support. Small portfolio of investments in focus area	No support. No IPOs in Malaysia since 2000 & only one M&A in 1994	No support. No clear investment space	Moderate support. Regional managers seem to have wide experience	No support. No clear geographic focus to match experience	Moderate support. Regional managers seem to have wide experience	Some support. No new investments so hard to match to experience	Not convinced of their experience	Moderate support. Team has VC experience & some industry experience but no other indication of overall experience esp. in their investment space
b) Expertise & Knowledge Base	One cause of failure was expecting managers without expertise or knowledge to manage & invest in different industries	Moderate support. Team has some expertise in focus industries & some industry knowledge base is evident	Moderate support. Team worked in many different firms but only locally not regionally	No support.	No support - Investments don't match expertise & knowledge base	No support. No IPOs in Malaysia since 2000 & only one M&A in 1994	No support. No clear investment space	Moderate support. Wider management in regional offices indicate more expertise & knowledge base	No support. No clear geographic focus to match expertise & knowledge	Moderate support. Regional managers seem to have wide experience	Some support. No new investments though old ones do somewhat match expertise of managers.	Does not think much of the team	Some support. Inadequate support of expertise & knowledge in their investment space
c) Knowledge Sharing	A distinct lack of knowledge sharing due to an autocratic style of management & decision making & mgt rivalry	No support. Team is spread around the region but there is no info on their CVs.	NR	NR	No support. Team don't hold Directorships in wide portfolio	NR	NR		NR	Moderate support. Wide spread of offices increases propensity to share but interview indicates otherwise.	No support. Team have no involvement in regional investments	No comments	No support. There is inadequate support of knowledge sharing in the group
d) Market Knowledge & Continuous Learning	A clear lack of market knowledge in their investment field & no continuous learning.	Some support. No Advisory committees to provide additional knowledge. Mgt has some expertise & qualifications indicate propensity to continue learning.	Moderate support. VP has wide experience in investment market but not in industry while other manager has industry experience but none in investment. Lack of wholistic knowledge.	No support	No support. Very small portfolio of investments shows no propensity to add to market knowledge	No support. No IPOs in Malaysia since 2000 & only one M&A in 1994	No support. No clear investment space	Moderate support. Greater number of offices should increase market knowledge	No support. No clear geographic focus to match experience in wider geographic focus	Moderate support. Greater number of offices should increase market knowledge	No support. Team have no experience in regional investments	No comments	Some support. There is some market knowledge but overall inadequate support of market knowledge & continuous learning. No advisory committee
e) Independence of the Management Team	No independence for Mgt team due to autocratic decision structure.	Moderate support. There is a Country Manager but note interview indicates no independence.	NR	NR	NR	NR	NR		NR	No support. Only the CEO name comes up in all news reports & no other country manager appears. Indicates possible autocratic system.	No support. There is no indication of ability to make decisions for their own investments & note interview points.	Investment dependent on Singapore office. Investee could not present to Singapore had to wait for KL office	No support. There is no support of management independence. Closure decision made without consultation by HQ.
(ii) Dealflow													

(II) Dealflow



a) Identifying and securing deals	The ability to identify and secure deals is a measure of success for VCs.	Moderate support. VP has worked in other successful firms that had successful investments & exits. Other manager has no such experience.	Moderate support. VP has worked in VC & investment firms but not industry. Other manager only in industry.	Moderate support. Has some memberships in different organisations	No support. No current portfolio	No support. No recent IPOs and M&As	No support. No recent deals within their investment space	No support. No recent deals within geographic focus	Some support. Many regional investments but all prior to year 2000. No recent deals.	No comments	Some support. No recent deals. last one in year 2000. Firm closed many offices in Dec 2001. But firm had many deals in 1990s shows that it had ability to identify & secure deals, but lost that ability or lost the propensity to invest.
b) Availability of deals in the market	Acknowledgement that the availability of deals in the market is crucial.	NR	NR	NR	No support. No recent investments indicates possible lack of deal availability	No support. No recent IPOs and M&As indicates possible lack of deal availability in their markets	No support. No recent deals within their investment space shows possible lack of deal availability	No support. No recent deals within geographic focus	Some support. Many regional investments but all made prior to year 2000. No recent deals.	No comments	Some support. No new deals in the last 5 years. Only Malaysian deal was 10 years ago & the last regional deal was in 2000. But previous many deals shows availability of deals in market
(iii) Exits											
a) Viability of Exits in the Market	Measure their success by ability to exit profitably. Lack of capital market for exits impacts on success.	Moderate support. Only Country Manager managed some successful exits	Moderate support. Only Country Manager managed to exit investments while working in other firms			Strong support. Firm has many previous IPOs and M&As - strong support of exit viability at least in prior years	Strong support. Many investment markets have viable stock markets including a technology exchange e.g. Malaysia & Singapore. Firm had many IPOs in these markets.	Strong support. Regional offices had many successful IPOs & M&As showing exit viability	Strong support. Large number of IPOs & M&As in regional investments at least prior to year 2000.	Investee is listed on Mesdaq	Strong support. The firm had many exits in their space & geographic focus prior to year 2000.
a) Value of Networks	The most important lesson for foreign VCs in Asia is that networks are invaluable.	Strong support. Team worked in multiple successful firms & had successful investments & exits at prior firms. Shows support of good networks	Strong support. Team has experience in different successful firms with successful investments & exits. Shows propensity for building good networks	Moderate support. Ng is member of several assocns indicates propensity to network	Strong support. No investments in Transpac but VP has shown many investments in his new firm. This shows VP has good networks	NR	NR	NR	Strong support. Firm had wide network of offices & multiple investments by these offices at least prior to year 2000.	Strong support. Firm had invested in a wide portfolio of regional investments at least prior to year 2000	Strong support. There were a lot of investments with successful exits & team have wide work experience showing good networks

# Appendix C7 – Consolidated Within Case Pattern Matching of Interview Data with Triangulated Data (All Cases)

CONSOLIDATED WITHIN CASE PATTERN MATCHING WITH TRIANGULATED DATA - ALL FIRMS						
Category/Firm	A) Barings - BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	E) Softbank - SBEM	F) Transpac Capital
	(I) Intangible Resources					
a) Management Team Experience	Strong support. Team is very experienced esp in their investment space.	Strong support. There is overall validation. Mgt team is very experienced in VC investing, successful exits and g obal investments.	Strong support. Overall there is validation that experience is necessary for firm success. The firm overall has vast experience though country team experience is a little limited	Strong support. There is overall validation of experience. Team & CEO have vast experience in VC & industry	Some support. There was insufficient support of management experience. Overall experience was inadequate & only in finance & telco. No VC or investment experience & esp. no internet experience, their focus area.	Moderate support. Team has VC experience & some industry experience but no other indication of overall experience esp. in their investment space
b) Expertise & Knowledge Base	Strong support that expertise & knowledge base fits investment portfolio & space	Strong support. There is overall validation of expertise & knowledge. Multiple exits globally & expertise in focus industries is very clear.	Strong support. Overall there is validation that expertise & knowledge is necessary for firm success. The firm has a lot of expertise & knowledge though the country team expertise is somewhat limited	Strong support. There is overall validation of expertise & knowledge. Team & CEO show strong support of expertise & knowledge in VC, industry & even entrepreneurship.	Some support. There is insufficient expertise & knowledge in VC or internet industry their focus area. Only expertise is in finance & telco	Some support. Inadequate support of expertise & knowledge in their investment space
c) Knowledge Sharing	Strong support. Knowledge sharing is indicated in all relevant areas	Strong support. Diversity of offices led by an experienced Founder. Regular meetings of mgt team show knowledge sharing in the group	Strong support. There is adequate support that there is knowledge sharing in the group	Moderate support. There is some support of knowledge sharing in the firm but as it is a single country fund sharing is not extensive	No support. There is no support of any knowledge sharing as the only other office in Poland closed within months. No indication of other Softbank partners being active in SBEM either.	Some support. There is inadequate support of knowledge sharing in the group
d) Market Knowledge & Continuous Learning	Strong support. Market knowledge & continuous learning is indicated in all the different categories	Strong support of market knowledge and continuous learning shown among management	Strong support. Regionally the firm has wide market knowledge and shows continuous learning among management	Strong support. There is good support of market knowledge and continuous learning among management	Some support. Only some industry knowledge is relevant. There were no IPOs or exits & no knowledge of their investment space in the Internet industry.	Some support. There is some market knowledge but overall inadequate support of market knowledge & continuous learning
e) Independence of Management Team	Moderate support. Team is fairly senior with strong multinational team across the region. Unable to fully validate independence of management	Moderate support. Difficult to prove independence other than high ranks of managers. Interview data indicates support of independence.	Moderate support. There is adequate support of management independence	Strong support. This is however self evident bec it is a single country fund & only reports to its investors, the Government	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision.	No support. There isn't enough support of management independence. Closure decision made without consultation by HQ.

Category/Firm	A) Barings - BCEA	B) BI Walden	C) H&Q Thailand	(iii) Dealflow		E) Softbank - SBEM	F) Transpac Capital
a) Identifying and securing deals	Strong support. Team has shown ability to identify and secure deals regionally with successful exits	Strong support. Firm has shown great propensity to identify & secure deals.	Strong support. Firm has shown great propensity to identify & secure deals though deals in Thailand are more limited	Strong support. The firm has clearly demonstrated its ability to identify and secure deals	Some support. Team had identified some deals prior to closure but firm closed before any investments made. Regional office also closed without investments. Shows some ability to identify deals though none secured prior to closure	Some support. Very few recent deals, last one was in year 2000. Firm closed many offices in Dec 2001. But firm had many deals in '90s indicating it had the ability to identify & secure deals, but has either lost that ability or has lost the propensity to invest.	
b) Availability of deals in the market	Strong support. Firm has done a lot of deals within their space & geographic focus as well as regionally.	Strong support. Firm has a lot of deals in their space & geographic focus	Strong support. Firm has a lot of deals in their space & geographic focus though deals in Thailand are more limited	Strong support. The firm has many deals in their space & geographic focus showing availability of deals in the market.	Some support. Team had identified some deals prior to closure. Shows availability of deals in their market	No support. There are no new deals in the last 5 years. Only Malaysian deal was 10 years ago & last regional deal was in year 2000. Possible indication of lack of availability of deals in market or of inability of firm to invest.	
Viability of Exits in the Market	Strong support. Firm has many exits in their space, geographic focus & several done by the regional offices	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	Strong support. Firm have many exits in their space & geographic focus	No support. Firm did not have any investments prior to closure. Their office was located in a market with a viable stock exchange, but firm did not have opportunity to invest & exit.	Strong support. The firm had many exits in their space & geographic focus prior to year 2000.	
Value of Networks	Strong support. There are a lot of investments with successful exits & wide work experience indicating good networks	Strong support. Many investments with successful exits and group has wide experience showing good networks	Strong support. Many investments with successful exits and group has wide experience showing good networks	Strong support. Many investments with successful exits and wide work experience showing good networks	Some support. Although there were no successful investments some were identified prior to closure. Team also did work in related telco industry & finance so would have some networks.	Strong support. There were a lot of investments with successful exits & team have wide work experience showing good networks	

**Appendix D - Venture Capital Associations in Malaysia, Singapore & Thailand & Members List as at 1<sup>st</sup> May 2005**

**1) Malaysian Venture Capital Association 2004/2005 - Website: [www.mvca.org](http://www.mvca.org)**

1. Amanah Venture Sdn. Bhd
2. Amazon Plus Sdn Bhd (TH Group)
3. BI Walden Management Sdn. Bhd
4. BPMB-NIF Modal Teroka Sdn. Bhd.
5. CIMB Private Equity Sdn Bhd
6. Commerce Asset Venture Sdn. Bhd.
7. DTA Capital Partners Sdn.Bhd
8. Expedient Equity Sdn Bhd
9. Kumpulan Modal Perdana Sdn Bhd
10. Lembaga Tabung Haji
11. Malaysian Industrial Development Finance Bhd
12. Malaysia Venture Capital Management Berhad (MAVCAP)
13. Malaysian Ventures Management Inc. Sdn. Bhd.
14. Mayban Ventures Sdn Bhd
15. MSC Venture Corporation Sdn. Bhd
16. MTDC Private Equity Management Sdn. Bhd.
17. Opus Capital Sdn. Bhd.
18. OSK Ventures International Bhd
19. Perbadanan Usahawan Nasional Bhd
20. PFM Capital Holding Sdn.Bhd
21. Pica (M) Corporation Bhd
22. SB Venture Capital Corp Sdn Bhd
23. Spring Hill Management Sdn Bhd
24. VF Capital Sdn Bhd
25. Waterfront Incubator Sdn Bhd
26. AmAssurance Berhad
27. Alam Teknokrat Sdn Bhd (SKALI)
28. BTV Management Sdn Bhd
29. iSpring Venture Management Sdn. Bhd
30. K M Chye & Murad
31. KPMG Corporate Services Sdn. Bhd
32. Navis Investment Partners (Asia) Ltd
33. Perkasa Normandy Managers Sdn Bhd
34. PricewaterhouseCoopers
35. Wong and Partners
36. Zaid Ibrahim & Co

## 2) Singapore Venture Capital Association

Website: [www.svca.org](http://www.svca.org)

1. 3i Investments plc
2. 3V Source One Capital
3. Actis Capital Partners
4. Affinity Equity Partners
5. ASC Capital
6. Ascendas Investment
7. AsiaVest Partners
8. Baring Private Equity Asia
9. Bioveda Capital
10. The Carlyle Group
11. CLSA Merchant Bankers
12. DBS Capital Investments
13. Draper Fisher Jurvetson ePlanet Ventures
14. EDBV Management
15. Fortune Venture Management
16. GIC Special Investments
17. Giza Venture Capital
18. Global Asset Capital
19. Global Catalyst Management
20. Green Dot Capital
21. H&Q Asia Pacific Venture Management
22. Henderson Global Investors
23. iGlobe Partners
24. Infineon Ventures Asia
25. JAFCO Investment
26. JAIC Asia Capital
27. Juniper Capital Ventures
28. McLean Watson Capital
29. Orix Investment & Management
30. PAMA Group Inc
31. Partners Group
32. Prime Partners Asset Management
33. Raintree Ventures
34. Rothschild Ventures
35. Schroder Capital Partners
36. SEAVI Advent Ventures Management
37. Sirius Capital Holdings
38. Springboard-Harper Investment
39. Standard Chartered Private Equity
40. Sycamore Ventures
41. TIF Ventures
42. Transpac Capital
43. UOB Ventures
44. Upstream Ventures
45. Vertex Management
46. VPSA Private Ltd
47. Walden International Singapore
48. Warburg Pincus



### **3) Thai Venture Capital Association**

**Website [www.venturecapital.or.th](http://www.venturecapital.or.th)**

1. Asian Direct Capital Management
2. Business Venture Promotion
3. CDC Capital Partners
4. Darby Asia Investors (HK) Ltd
5. Finansia Co., Ltd
6. H & Q (Thailand) Ltd
7. NAVIS Capital (Thailand) Ltd
8. PAMA Group Inc
9. Rasa Holding
10. Thai Strategic Capital Co., Ltd
11. Vnet Capital Co., Ltd
12. JAIC Asia Holdings Pte. Ltd
13. Access Capital (Thailand) Ltd
14. Bank of Ayudhya PCL
15. CSL Thailand
16. Dharmniti and Truth Limited
17. Mullis Capital Corporation (Thailand) Co., Ltd
18. ERM-Siam Co., Ltd
19. TICON Industrial Connection PCL
20. Trinity Securities Co., Ltd

## Appendix E – Key Characteristics of Cases

Ref. No.	Firm Name	Year Founded	Main HQ	Regional Offices	Founder(s)	Country Manager of Firm Interviewed	Other Managers Interviewed	Fund Size	Investment Space	Technical Advisory Board or Committee
A	Baring Communications Equity Asia (BCEA)	1996	London (UK/Dutch firm)	Singapore, Taiwan, Korea, China, India	Peter Chan & TS Yong	Peter Chan (Singapore)	TS Yong	US\$ 100 mil	Media & Telecommunications (Broadcasting, Internet, Wireless, Broadband & Content)	None - but access to ING Barings group
B	Walden International	1987	San Francisco, USA	China, Hong Kong, Japan, Malaysia, Philippines, Singapore, Taiwan	Lip-Bu Tan	Kwee-Bee Chok (Malaysia)	Cindy Tee & Chee-Khen Chong	US\$ 1.5 billion	Semiconductors, Communications, Electronics & Digital Consumer, Software & IT Services	Yes
C	H&Q Asia Pacific	1986	Palo Alto, USA	China, Hong Kong, Japan, Korea, Philippines, Thailand, Singapore, Taiwan	Ta-Lin Hsu	Virapan Pulges (Thailand)	Paian Sonburanasin	US\$ 1.8 bil	Technology, Tech Manufacturing, Consumer Brands & Financial Services	Yes
D	MSC Venture Corporation	1999	Cyberjaya, Malaysia	None	Government founded	Esmond Goei (Malaysia)	Husni Salleh, Alan Tan	US\$ 31.6 mil	Telecommunications, e-Commerce, Medical systems & devices, security software, multimedia content	None
E	Softbank Emerging Markets (SBEM)	2001	Silicon Valley, USA	Malaysia & Poland	JV between Softbank & World Bank	Yoke-Kee Ang (Malaysia)	Karan Ponnudurai	US\$ 200 mil	Internet, Wireless Communications, Enabling Technologies & Internet Infrastructure	None
F	Transpac Capital	1989	Hong Kong	Singapore, China, Taiwan, USA & closed offices- Malaysia, Indonesia, Thailand, Philippines	Christopher Leong & Victor Fung	Jason Ng	Tien-Kiong Yeo	US\$ 820 mil	Uncertain (Used to be manufacturing & services with high growth potential)	None

## Appendix F – Open Ended Questionnaire Format

REF NO:

RECORDING –

### GLOBAL VENTURE CAPITAL INVESTING IN THE EMERGING MARKETS OF ASIA

PARTICIPANT NAME: DESIGNATION:

FIRM NAME:

DATE OF INTERVIEW:

START TIME:

END TIME:

PLACE OF INTERVIEW:

\*\*\*\*\*

#### 1) Experience

- a) What was your background before you became a VC?
- b) Tell me a about your experience as a VC
- c) How about your experience working for a foreign (or local as the case may be) VC firm?

#### 2) Firm Success

- a) Would you consider your firm as successful?
- b) How would you define "success" for a VC firm or your VC firm?
- c) How do you measure "success"?

#### 3) Success/Failure Factors

- a) What factors lead to success (or failure) for a VC firm?
- b) What factors led to your firm's success (or failure)?
- c) Can you classify these factors as external (i.e. external environmental factors) or internal (factors within the firm)?
- d) Do external factors such as the external environment impact on your firm's success (positive & negative)?
- e) What are the main ones that you consider crucial?
- f) Do internal factors within the firm have a significant impact?
- g) What are the main internal factors that you consider crucial?
- h) Overall which of these factors are more important to ensure firm success
- i) Do these factors impact a foreign firm differently from a local firm

4) Investment Strategy

- a) Is there a particular strategy that can ensure successful investing?
- b) Do you employ such a strategy?
- c) Is this any different between a foreign & local VC firm?

5) Investment Models

- a) Do you use any particular investment model?
- b) Is there a particular model used by your parent firm that you adopt in your own investment markets?
- c) Are there any differences or do you use exactly the same model?

6) Transferability of Models

- a) Can your parent firm's success in terms of strategies or models be adopted without significant change in your investment markets?
- b) Does your parent firm require the use of their investment models or strategies in your markets?
- c) If there are any changes what are they and why?

7) Global Model of VC

- a) Do you think there is such a thing as a Global Model of VC?
- b) How would you define global?
- c) Would your firm be using some form of global model based on your parent firm requirements or strategies for example?
- d) If yes what is the model, if not why not?

8) Regional Model of VC

- a) If there is no Global Model of VC can there be a Regional Model?
- b) What region would it cover?
- c) Why can there be a regional model?

9) Any other comments

10) Thank you

## Appendix G1 – Within Case Pattern Matching of Interview Data – BCEA

Category/Name of Participant	Yong Thian Tze	Peter Chan	Analysis & Comments
(i) Intangible Resources			
a) Management Team Experience	The firm came to Asia in 1986 wanting to replicate what they did successfully in Europe in 1993/1994... in the Telecommunications, Media and Entertainment Industries	The team also had media experience. Their focus on TMT also enables them to enhance the value of their investments.	There is a clear indication of the importance of experience to their strategy & their fund. The domain experience is relevant to their success, enabling them to leverage on their experience in the Fund's industry focus.
b) Expertise & Knowledge Base	Partners are confident because of the knowledge base within the firm and their expertise in the markets and industries.	Team members are the <u>most important</u> . They must have the <u>right</u> people. They don't really evaluate their team but rather look at it from a "product" angle. What products must you do to differentiate from the other funds? These products must be supported by the team's expertise.	The importance of the team's expertise related to their industry focus is emphasised. The knowledge base & expertise is deemed important by both Partners.
c) Knowledge Sharing	They can also leverage on their offices in Singapore (HQ), Taipei, Beijing, Seoul and soon Shanghai. If necessary they do call their fellow fund managers for opinions, but not for decision making or strategic planning.	They are also in constant touch with their counterparts in UK, India, USA, etc. There is support from the extended Barings group including the US and UK. Their partners globally have an agreement to support each other	There is extensive knowledge sharing between their different country funds even though it is on an informal basis as each fund is independent. This allows them to share ideas, thoughts and also seek opinions on investments.
d) Market Knowledge & Continuous Learning	Even for their firm, it is more important for their investment partners to have "on the ground" presence, to know the market and the players. To do this they need to network, they must have the skills and experience...but more important is the ability of their investment partners to "smell out a deal"	Team continuously conceptualising & sharpening product differentiation... worry during dotcom boom that did not have enough knowledge about ICT esp. related to Internet...that their knowledge no longer relevant. Internet investing booming but they lacked knowledge to invest in that industry. Worried bec. of lack of knowledge they would be left out of the Internet growth industry, (but) the dotcom bust & ... meltdown eased their worries.	In-depth knowledge of their market and continuous conceptualising and sharpening of skills relates to continuous learning and adapting to the market to keep them relevant. The possible lack of knowledge in an emerging field is emphasised here, especially during the dot-com boom when they lacked knowledge in the Internet based industry. The Partners reinforce experience and market knowledge of the team.
e) Independence of Management Team	BCEA runs autonomously. Previously they used to have a common Investment Committee and an Advisory Committee for all their global funds, which makes the final decision on the deals but this is no longer the case. The partners make all the decisions and have their own Investment Committee.	The management team is decentralised and team focused. Team members can make "partner" within 5 years.	The Fund is totally independent in making its investment decisions.



(ii) Dealflow			
a) Identifying and securing deals	...but more important is the ability of their investment partners to 'smell out a deal'.	In Malaysia they have to identify good Bumiputra companies and then fund their IPOs	The ability to "smell out a deal" and an example of a type of deal in Malaysia signify the importance of identifying and securing dealflow.
b) Availability of deals in the market	<p>... European market starting to consolidate ... less opportunities as the market started to mature. The communications infrastructure also had been built so there were fewer opportunities in that area. However the content industry was starting to grow for example in online travel ... in China. They have just set up a new fund for Asia. ... as there is now a window of opportunity to invest and take the companies to market. There is a gap in the market.</p>	Don't be a single country fund, so BCEA will do one ASEAN deal for every two China deals	The availability of dealflow and the opportunities in Asia are the reasons for setting up a new fund. Note that the European market is maturing and lacks adequate dealflow.
(iii) Exits			
Viability of Exits in the Market	The key decision for them to invest is the availability of an exit. There must be an active capital market for either an IPO or a Strategic Acquirer available. Firm avoids markets where capital markets are not active & exits are weak. This is the first & most important criterion for investments	Since exits are the key to successful investments, every market must have an exit strategy	The viability of exits in each market is the key decision for them to invest in a particular market or country. Active capital markets for both IPOs and M&As are emphasised.
(iv) Networks			
Value of Networks	Even for their firm, it is more important for their investment partners to have "on the ground" presence, to know the market and the players. Their "roots are deep"	BCEA has good regional contacts and validation of the technology within different regions. They also use all local partners e.g. local securities houses. Partners may also be investors or co-investors.	The value of their networks to their success is important and is emphasised by the phrase their "roots are deep".

## Appendix G2 – Within Case Pattern Matching of Interview Data – BI Walden

Category / Name of Participant	Chok Kwee Bee	Cindy Tee	Chong Chee Khen	Analysis & Comments
	(i) Intangible Resources			
a) Management Team Experience	What does it take to be a Tier-1 VC firm - have the right partners within the firm... learn from their experience... how to build companies. The Walden partners knew what was necessary to survive as they learnt from their experiences in the past. In Transpac the team was not good.	There are 5 sectors in Walden, each headed by an industry expert and each has its own committee. They identify their strategic focus via the history of the group. It started with semiconductors in Taiwan and Malaysia and evolved into software, Internet and BPO	Foreign VCs have better exposure as they ...have the experience of prior deals done by other global offices. BI Walden is also successful because the founder Tan Lip-Bu is a long term visionary.	The experience of the partners is one of the keys to their success including the Founder who is deemed a visionary.
b) Expertise & Knowledge Base	Walden partners are industry people, so they know the industry well. All of their partners have built companies. Walden wants partners with domain expertise. Need to consider what industry to invest in & which sector. This depends on the domain expertise of the partners.	The industry heads look at the development of the industry. The US gives tips and pointers, it's a 'top-down' approach.	The strategy is formulated by the respective country heads, the industry experts in the group and by Lip-Bu. They ...invest in the areas they know best. The expertise of other offices and partners is used often.	The industry knowledge and expertise of the partners is important for success & in formulating strategy.
c) Knowledge Sharing	The strategy is to meet regularly, the Quarterly Management Meetings ...they will look at the dealflow, syndicating, etc. They also do weekly conference calls. There is also a sharing of views and knowledge among the partners.	Industry heads meet half yearly & perform annual review of the industry. There is also a yearly strategy meeting. Individual sub-committees meet regularly to share information. There is a lot of sharing of information between the partners.	There are regular meetings to formulate strategy.	The partners & managers meet regularly to share information & dealflow. This regular meeting schedule deemed important by all managers as a basis for knowledge sharing. There is a lot of sharing of information & knowledge among partners & their various offices.
d) Market Knowledge & Continuous Learning	Walden partners are industry people, so they know the industry well. Partners must also have good financial background and must read and learn all the time. They also need to get second opinions from experts. Staff also attend the VC Institute.	There is a lot of sharing of information between the various partners. Third party endorsement also helps in deciding to invest in a deal.	The expertise of other offices & partners is used often. This helps a lot in the deal making. Foreign VCs have better exposure as they can depend on or have the experience of prior deals	The use of external opinions and experts shows the relevance of market knowledge & expertise in selecting successful deals. This includes continuous learning by staff attending the VC Institute.

e) Independence of Management Team	Their regional strategy is based on an industry focus. They choose the industry to invest. They look at the roadmap of investments for the next 3 to 5 years. Each country manager has to do this.	The strategy must fit a regional model & must work with regional Walden partners. However each country needs to formulate a local strategy and see what works and what does not. What works in the US may not work in Asia.	No mention	The long term investment strategy and the role of each country manager in formulating this strategy is important as it indicates the use of local knowledge in strategy development even for a foreign VC firm. There is some independence for local managers.
(ii) Dealflow				
a) Identifying and securing deals	Each manager must also identify 10 contacts that can bring in dealflow.	Have the ability to spot good opportunities to take to an exit. ... to check out the deal, use their contacts, industry and market players.	The expertise of other offices and partners is used often. This helps a lot in the deal making. The local office does the same for the overseas offices too.	The ability of the partners & managers in identifying dealflow and their expertise in dealmaking is important for the firm's success.
b) Availability of deals in the market	Dealflow is the main problem and for Walden it is a major problem. If there is no dealflow, then Walden may leave the country. From a global perspective Malaysian deals are too small. The problem is can Walden get a big enough ... regional deal that can compare with China & North Asia	There is no sufficient dealflow in Malaysia. It is better in Singapore, Hong Kong & China. Even if you manage to raise funds but cannot get deals and cannot exit, it defeats the purpose of being a VC. They need to get into early stage deals.	There are no factor considerations as they go where the deal is	Dealflow considerations are clearly crucial for Walden. They will even leave the country if they cannot find adequate dealflow. The availability of dealflow and in this case the size of the deals is also important for success. The firm will go where necessary to look for deals including regionally. Geography is no restriction in seeking dealflow.
(iii) Exits				
Viability of Exits in the Market	The availability of an exit mechanism is one of the first considerations. For example in Malaysia the IPO market is good but Malaysia needs to develop the trade sales market especially for the private equity industry.	Success is - have the ability to spot good opportunities to take to an exit.	Success is meeting the expectations of investors especially the number of companies that get listed. If companies that you work with go for a listing or a trade sale then you are a successful VC.	The availability of an exit mechanism both IPOs and trade sales is an important consideration for investing in a particular country. Listing your investments is also a measure of VC success.
(iv) Networks				
Value of Networks	Choose partners (for Walden) with good local contacts. Partners must be able to connect Lip-Bu with all the right people and must have a good network. Each manager must also identify 10 contacts that can bring in dealflow.	Demographics in Asia are based on strong individual contacts. The strong Asia - Silicon Valley connection in Walden made Asian companies successful in the USA.	... the Singapore government has created a better ecosystem and more networks that help their companies, this is not happening in Malaysia	The strength & value of the network is demonstrated by their Asia - Silicon Valley connection which assisted their Asian companies in being successful in the USA. The value of the network is also a measure of personal success for the VC.

### Appendix G3 – Within Case Pattern Matching of Interview Data – H&Q Thailand

Category/Name of Participant	Virapan Pulges	(i) Intangible Resources	Patan Somburanasin	Analysis & Comments
a) Management Team Experience	No mention	The H & Q Asia Pacific strategy is formulated by the management in the USA – the CEO and COO and the various Managing Directors who meet quarterly. They share experiences and fund performances.	No corroboration	No corroboration
b) Expertise & Knowledge Base	No mention	Success factors - ...the industry that they pick to invest in is important. If the VC has no expertise or uses the wrong strategy then it can lead to failure. They will do business development and use their networks to help grow the company.	No corroboration	No corroboration
c) Knowledge Sharing	The strategy is formulated by an Executive Committee (Exco) ...& they meet quarterly.	The H & Q Asia Pacific ... management ... meet quarterly. They share experiences and fund performances.	Regular meetings and the sharing of experiences & performance equate knowledge sharing & is important to strategy formulation.	
d) Market Knowledge & Continuous Learning	Pre-crisis H&Q used to make minority investments but post crisis (1997 onwards) control was more important ... its investment size is larger. Post crisis they decided to invest in restructuring companies, now it is buyouts or migration.	H & Q Thailand is different because of their majority stakes in cos. & active involvement in their investments which is important for their success. ... they will do business development and use their networks to help grow the company. They also need to study the company's markets.	The control of their investments gives them the opportunity to be actively involved in the running of the business. One manager clearly states that this is important for their success. Change in strategy depending on changes in economic circumstances can be an aspect of learning.	
e) Independence of Management Team	The headquarters does not play much of a role in the strategy. The Exco and the Investment Committee makes their own decisions. Each local fund has a local Investment Committee and they make the decisions. The strategy is to have local managers in each country.	Local management will propose the industry strategy and will identify the different industries to invest in based on each country. ... they will give each country leeway to decide on the industries and don't place limits on each country.	There is clear management independence. Local managers in each country are given the opportunity and decision making ability to select their own industry strategy.	
a) Identifying and securing deals	They will invest in any good deals. The regional model is successful because H&Q go for the best deal within the region. Looking to invest in cos. selling up manufacturing plants in China or selling to Chinese consumers. Sourcing deals is via their networks.	Success factors - ...the industry that they pick to invest in is important – the right industry, right company, at the right price... The local offices will identify their opportunities and dealflow... to find a company that is growing & has a competitive advantage.	There is a conscious strategy to pick investments and to seek the best deals. The local offices are required to identify the opportunities and the dealflow by using their networks.	
b) Availability of deals in the market	The dealflow in Thailand for their size deals is not many so they look for more MBO deals.	Dealflow in Thailand is quite limited. New H&Q Asia Pacific fund is focused on North Asia, mainly China... also some dealflow in Korea & Japan. Also the region may be limited eg. Asean market may be small	Lack of dealflow in their market is clearly recognised. Geographic focus changes i.e. shortage of deals in Thailand leads to focus on North Asia.	

Viability of Exits in the Market	(iii) Exits	
	Some of H&Q's returns in companies that went IPO were - Thalcan return was 2 times, Thalcan ...4 times, SVI for the first fund was 6 times, the next was 2 times & Fabrinet there was an offer to acquire at 3 times. American style returns of 50 times does not happen in Asia.	Although the importance of exits is not specifically mentioned, indirectly there is a major focus on IPOs and acquisitions especially on the amount of returns on exits. Hence exits are clearly important to H&Q.
Value of Networks	(iv) Networks	
	Sourcing deals is via their networks. In fact all 3 deals mentioned were due to personal networks.	The use of networks both for sourcing investments and in growing them are mentioned. Importance to the firm confirmed as 3 major deals were acquired through networks.



## Appendix G4 – Within Case Pattern Matching of Interview Data – MSC Venture Corporation

Category / Name of Participant	Esmond Goel	Husni Salleh (i) Intangible Resources	Alan Tan	Analysis & Comments
a) Management Team Experience	Investment model ...is based on the experience and knowledge of the VC. When they look at a deal, they have to "look beyond the deal".	Personal success is to ... have managed a successful fund.	Since Esmond's entry it's not just what they do but how they do it. It's the depth of experience that he brings... from America. He has experience working for a Singapore fund.	The depth of experience and knowledge is critical to the success of the firm.
b) Expertise & Knowledge Base	Investment model ...is based on the experience and knowledge of the VC. Personal mission is to develop the VC industry in Malaysia, set the pace, do deals, leadership by example.	They do business development and will even project manage the deals. They also do fund raising for their investee companies.	"What works best is what we know best" ... invest in things that they understand. In companies that they can value-add. Must be comfortable with the industry. But in Malaysia there isn't sufficient expertise in the VC industry.	Domain knowledge is important - "What works best is what we know best". They invest in things they understand. Must be comfortable with industry they invest in. Expertise & knowledge of VC is important incl. ability to project manage deals & fund raising.
c) Knowledge Sharing	The ability to be engaged in domestic policy, their views being solicited by policymakers and the recognition that they get.	Some strategies can be transferred but they need to talk to people overseas, to their networks. They will make more use of their networks to find out examples of the things that their contacts did.	As the current CEO, Esmond brings a lot of experience from America. In the early days there was a lot of indecision. But Esmond is very decisive and has good instincts.	The firm engages in knowledge sharing, between the new CEO & the management and also with their networks and policymakers
d) Market Knowledge & Continuous Learning	The key part of the ecosystem is the state of mind, the people in the US have a different state of mind, they are not afraid to venture out or to invest money for a future return.	Investment strategy- invest based on life cycle of fund. Decide how to capitalise at each timeline. Need to pick industry. Bioleech takes too long to give a return. Electronic devices easy to ramp up.	They must be able to pilot the boat when necessary. In Malaysia Entrepreneurs are young first-timers. So MSCVC must be able to solve their problems if Entrepreneurs cannot.	VCs must be capable of assisting investees in managing their companies & in solving problems. VCs must have management expertise & capabilities. There is support of continuous learning.
e) Independence of the Management Team	No mention	It is important for VC firms to make sure they keep the individuals – the firm's managers & key staff too. Local VC structure is different. no partnership structure, senior managers earn a salary & are not financially stable	Original CEO didn't want to take the loss. Management was recommending to write off the loss ...but they didn't. When Esmond came in he cut off all the loss making Cos. In the early days there was a lot of indecision but Esmond is very decisive.	Moderate corroboration. The structure of the management team & the autocratic style of the previous CEO created problems for the Firm. The new CEO listens to the team & is decisive.
a) Identifying and securing deals	When they look at a deal, they have to "look beyond the deal".	(ii) Dealflow One of the factors is the ability to find the right deal and the right people – dealflow.	MSCVC investment strategy depends on a few factors - Good dealflow	Identifying good dealflow is critical for the success of the firm.
b) Availability of deals in the market	The dealflow is strong especially in the US because of Esmond's networks. There are a lot of big deals thanks to the "word of mouth" network.	No mention	Outside investments must have a link to Malaysia, must benefit Malaysia. Eg. funded a US marketing company to help market one of their Malaysian investee companies Nexus Edge. So there must be a Malaysian angle.	There is moderate corroboration that the availability of dealflow in their choice of market is important.

	(iii) Exits			
Viability of Exits in the Market	Mesdaq is the jewel in the crown as there is a good exit & there is liquidity. Investors can liquidise their investments on Mesdaq. They have also listed a few companies on Mesdaq including RedTone, and Karensoft Technologies.	For example, for their China investment, the exit may not be in China, so they will exit outside China for e.g. in Singapore or Hong Kong	MSCVC is a pretty successful firm and has already broken even. On a regional perspective, it is probably one of the more successful.	The value of having a Stock Market for exits is very important and the firm is considered successful because they have listed several companies.
Value of Networks	The dealflow is strong especially in the US because of Esmond's networks. There are a lot of big deals thanks to the "word of mouth" network.	(iv) Networks They will make more use of their networks to find out examples of the things that their contacts did. The customs and the networks are all local.	MSCVC investment strategy depends on a few factors - Good networks. They must have a network in that field.	The value of personal networks is a key part of the success of the firm. They use the networks to obtain deals and also to get expert advice before investing.

## Appendix G5 – Within Case Pattern Matching of Interview Data – SBEM

Category/Name of Participant	Ang Yoke-Kee	Karan Henrik Ponnudurai	Analysis & Comments
	(i) Intangible Resources		
	<p>Their foreign partners have worked globally and are seasoned professionals. Softbank can benchmark &amp; learn from previous successes and failures of their portfolios. Also important is the role that Softbank plays in the management of the company. They will influence the co...the path to success will be shortened.</p> <p>SBEM also has networks, expertise and seasoned professionals who work globally and can advise their companies</p> <p>There is also a lot of sharing of information between their experts at their US headquarters</p>	<p>Most VC firms were staffed or dominated by finance people, not industry people, unlike Softbank. ... both Karan and CEO David Low had industry expertise. They had the experience of building ecosystems and networks and were able to connect with key people.</p> <p>The difference between Softbank and the competition was the industry expertise and domain knowledge within Softbank. They are industry experts.</p> <p>...based its strategy on discussions with individuals in each Softbank office.</p>	<p>The prior experience of the firm in funding similar companies, their industry experience and the ability to benchmark using that experience is important. Their foreign partners are also seasoned professionals alluding to their experience in the industry.</p> <p>Industry expertise and domain knowledge within the firm is important</p> <p>Sharing of info between management &amp; their US HQ experts and with other offices is important</p>
a) Management Team Experience			
b) Expertise & Knowledge Base			
c) Knowledge Sharing			
d) Market Knowledge & Continuous Learning	<p>Softbank has a huge portfolio of investments so it can benchmark and learn from previous successes and failures of their portfolio in other markets. This ... comparison &amp; learning ... is one of the unfair advantages that Softbank has.</p> <p>SBEM was closed after the 2001 Sept. 11, terrorist attack in New York. At time of closure they were ready to offer terms to 8 companies...</p>	<p>They had the experience of building ecosystems and networks and were able to connect with key people.</p> <p>Softbank the parent company closed all its operations ... to focus ... on broadband in North Asia</p>	<p>The ability to benchmark and learn from previous investments as well as their ability to build ecosystems and networks alludes to their market knowledge &amp; continuous learning</p> <p>The decision to close the operations in Malaysia &amp; elsewhere was made by the parent firm even though they had deals secured, indicating there was no independence for the firm. There is no specific mention of management team independence. The US office had control and ultimate decision-making authority.</p>
e) Independence of Management Team			
	(ii) Dealflow		
a) Identifying and securing deals	<p>At the time of closure they were ready to offer terms to 8 companies. Dealflow at that time (1999 to 2001) was good with many younger companies.</p>	<p>In Malaysia they were close to completing 5 investments before SBEM was closed</p>	<p>The fact that they had between 5 - 8 deals shows that they were able to both identify and secure adequate deals</p>
b) Availability of deals in the market	<p>One of the most important factors is the availability of adequate dealflow... and many potential investments. So there must be good demand &amp; supply in the economy as this ensures that there will be a lot of dealflow.</p>	<p>The measure of success is... the number of deals done. For Softbank this target was 10 deals in 2 years per Investment Manager.</p>	<p>Adequate dealflow is both an important factor &amp; a measure of success</p>

	(iii) Exits	
Viability of Exits in the Market	<p>The availability of an exit is also important although because SBEM is global, they can list their investments elsewhere (other than in Malaysia) so they were not as concerned. But if an exit was available in each market it would be better.</p>	<p>The importance and availability of an exit is identified as well as the recognition of Mesdaq, the technology exchange in Malaysia as a viable exchange</p>
	(iv) Networks	
Value of Networks	<p>SBEM also has networks ... globally and can advise their companies. They can match their emerging market investees with others that they have in say US or Korea and can create greater synergies and grow the businesses. They also look for synergy with their existing investments.</p>	<p>The importance of their networks and the ability to build synergies is one important factor. Their global networks are specifically mentioned.</p>

## Appendix G6 – Within Case Pattern Matching of Interview Data – Transpac

Category/Name of Participant	Jason Ng	Yeo Tien Kiong	Analysis & Comments
	(i) Intangible Resources		
a) Management Team Experience	In 1997 Asian crisis ...shifted focus ...to build 'platform companies' ... like Private Equity. But they don't have the experience and the knowledge for such investments. Transpac people have MNC experience but in small firms it is not the same.	Transpac had about 30 members of staff in the investment team with a lot of experience including cross-border industrial focus & cross-border evaluation teams. In the US VCs often have entrepreneurial experience but in Asia most VCs are ex-bankers.	There was a lack of congruence between the management team's experience & the Exco's expectations of them especially by expecting them to invest in & manage deals outside their scope of experience. This led to the failure of the firm.
b) Expertise & Knowledge Base	Transpac didn't have enough domain expertise, most of the team were electronics based & the new intakes were telecoms based. In 1997 Asian crisis they shifted focus to build 'platform companies' like Private Equity ...but they don't have the experience and the knowledge for such investments. To make such investments they must have industry knowledge and domain expertise.	The team has to change to adapt to the market. ...not very happy with this strategy as ...they should not expect professionals to change to adapt to the market as their expertise was not put to use. Changing all the time meant that they did not develop an expertise and whatever expertise they had was wasted	The lack of expertise in the industries they were expected to invest in and the constant changing of focus led to managers not developing domain knowledge & also not using their own expertise to good use. One cause of failure here was expecting managers without expertise or knowledge of particular industries to manage & invest in such industries
c) Knowledge Sharing	There is a fortnightly deal meeting where the investment managers must defend deals. Much depends on the President liking the deal. Quarterly meetings are very useful for networking. VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry.	Reason for failure ... the firm is a "one man show". Founder President Dr. Christopher Leong. The Exco makes the strategic decisions especially the President ... and the rest of the team has to follow. There was no mechanism to make strategy. They had 30 members in the investment team with a lot of experience, including cross-border industrial focus and cross border evaluation teams.	There was a lot of experience & knowledge within the team, but due to the autocratic style of management & decision making there was a dislind lack of knowledge sharing. Even the quarterly meetings were useful only for networking.
d) Market Knowledge, Continuous Learning & Skills	They were investing like Private Equity but VCs have no expertise in this type of investments. They don't have the ...knowledge for such investments. To make such investments they must have industry knowledge and domain expertise.	They had about 30 members in the investment team with a lot of experience, including cross-border industrial focus and cross border evaluation teams. However the strategy was to adapt to market opportunities. They should not expect professionals to change to adapt to the market as their expertise was not put to use, whatever expertise they had was wasted.	A clear lack of market knowledge in their investment field due to the constant changing of strategy was a cause of failure. There was also no continuous learning but they were expected to adapt to any changes in strategy but these were changing too often to enable learning. There was no mention of market skills.
e) Independence of Management Team	In Transpac much depends on the President liking the deal. It is a very autocratic way of deciding on deals. Even the country heads have no decision-making authority. But the President was too dictatorial and this caused a lot of infighting within the team.	Reason for failure ... the firm is a "one man show". The Executive Committee makes the strategic decisions especially the President ... and the rest of the team has to follow. There was no particular mechanism to make strategy as this was left to the Exco.	The lack of a consensual decision & strategy making structure led to dissatisfaction within the management team. The autocratic manner with which the President ran the firm did not help the firm. There was no independence for the Mgt team & this was one major cause of failure.
a) Identifying and securing deals	Measure success by the ability to identify investments. VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry.	Personal success was - The ability to do a good job by spotting good investments, good monitoring of the investments and seeking out the best returns.	The ability to identify and secure deals is a measure of success for VCs. Dealflow is also a result of having good contacts and knowledge about the industry.

b) Availability of deals in the market	Doing deals in Malaysia is not difficult.	VCs must spot deals but in Asia very few deals to spot... the dealflow is very small. Investing in Asia is difficult. In Asia top management is expensive but the dealflow is not there. Also Transpac's minimum deal size was US\$ 5 million, which was difficult to invest in Malaysia at that time. This limited the number of deals that could be done.	This is a slight difference of opinion between the 2 managers. Although one believes that doing deals in Malaysia was difficult because of the small deal sizes compared to their preferred deal size, another manager said doing deals in Malaysia is not difficult. However this is still acknowledgement of the fact that the availability of deals in the market is crucial.
		(iii) Exits	
Viability of Exits in the Market	Measure success by the ability to identify investments and then manage to exit profitably.	Exits were also a factor because ...between 1996 & 2001 the Mesdaq market for growth and technology companies was just formed & was not active. Hence exits were difficult and Transpac did not manage many exits so success was limited.	VCs measure their success by their ability to exit profitably, hence lack of a capital market for profitable exits impacts on VC success.
		(iv) Networks	
Value of Networks	Generally to be successful VCs need to have good industry contacts, so that they can share knowledge about the industry including problems in the industry. The firm has ... industry contacts to source deals. The most important lesson - Contacts and networks are important	Spotting of investments - the good deals come from personal contacts, from the VCs networks.	To be successful VCs need to have a good network and contacts which enables them to find good deals. The most important lesson for foreign VCs operating in Asia is that networks are invaluable.



## Appendix H – Assumptions – Triangulation of Multiple Data Sources – Within Case Pattern Matching

	Management Team - Biodata			Company Archives - Investments		Company Archives - Geographic Reach		Interviews	Conclusion		
	Experience, Domain Knowledge & Expertise	Worked in Variety of Firms	Association / Society Memberships	Portfolio of Investments	IPOs & M&A	Investment Space	Geographic Focus	Network of Offices	Regional Investments	Potential Investees	
Content of Information of multiple data sources and link to categories >>	The Management Team Biodata will provide details of experience, qualifications and expertise as well as other pertinent data	Based on the experience of the team & whether they have wide working experience in VC funds or in industry	Look for memberships in related organisations e.g. VC Associations, Government committees, etc	Multiple portfolios in focus industry in multiple countries incl. at other firms - validates dealflow by region or country.	Has group or firm listed investments in multiple countries. Validates experience, expertise, dealflow, exits & networks	Investment space is very focused and clearly stated. Must fit their experience & expertise. Can also validate dealflow	Geographic focus to match experience. If focus doesn't fit other info eg experience, it can show unfocused firm.	Senior Management in multiple offices with wide experience provides validity for networks, experience & expertise.	Investments must fit their focus area and stated geographic focus. Listing in regional markets validates experience & exit strategy. Also shows amount of dealflow.	Provides confirmation on the firm investment focus, experience, expertise, dealflow, exit strategy and networks. Other comments may be relevant	
											(i) Intangible Resources
a) Management Team Experience	Look for experience within their area of investment focus	Greater experience in other VC funds or in cos. related to their focus the more valid the confirmation of experience.	Leadership positions will equate more ordinary membership	The wider their portfolio of investments in focus area the greater their experience	The more IPOs & M&As the greater their experience	Strong support where investment space fits team's experience	Strong support where geographic focus matches experience	The wider the experience of the different managers the greater the support of experience	Must match experience of the managers. Success stories like IPOs regionally boost validity of experience	Do Investees think the VCs have experience	Strong support if there is overall validation of experience
b) Expertise & Knowledge Base	Wide expertise in focus industries & strong knowledge base in the team is strong support	Greater experience in other VC funds or cos. related to their focus - more valid the confirmation of expertise & knowledge	Leadership positions in relevant organisations can validate expertise	Must match expertise	More IPOs & M&As within their expertise - greater support of expertise & knowledge	Strong support where investment space fits team's expertise	Strong support where geographic focus matches expertise & knowledge	NR	Must match expertise of managers. Success stories of regional IPOs related to expertise boosts validity	Do Investees think the VCs have expertise & knowledge	Strong support if there is overall validation of expertise & knowledge
c) Knowledge Sharing	Spread of management team around the region, wide experience & regular meetings indicate propensity to share	NR	NR	Holding of Directorships in wide portfolio means more knowledge sharing	NR	NR	NR	Wider spread of offices increases propensity to share knowledge	Wider involvement in regional investments shows propensity for knowledge sharing	Do Investees think the VCs do more knowledge sharing	Strong support if there is support can show knowledge sharing in the group
d) Market Knowledge & Continuous Learning	Strong support if team is diversified with wide expertise & knowledge. Advisory committees & external professionals	The wider their experience & scope of firms worked in the greater their market knowledge esp.	Membership of associations can mean continuous learning & more market knowledge	Wider portfolio of investments involved in market knowledge	Wider portfolio of IPOs and M&As means more market knowledge	Greater experience in their investment space shows more market knowledge	Experience in wider geographic focus increases market knowledge	Greater number of offices increases market knowledge	Greater experience in regional investments shows increased market knowledge	Do Investees think the VCs have more market knowledge and are continuously learning among management	Strong support if there is market knowledge and continuous learning shown among management



## Appendix I 1 – Cross-Case Pattern Matching for Successful Firms

Category/Firm	A) Barings - BCEA	B) BI Walden	C) H&Q Thailand	D) MSC Venture Corp	Conclusion
	(i) Intangible Resources				
a) Management Team Experience	Strong support. Team is very experienced esp in their investment space.	Strong support. There is overall validation that experience is necessary for firm success. The firm overall has vast experience though country team experience is a little limited	Strong support. Overall there is validation that experience is necessary for firm success. The firm overall has vast experience though country team experience is a little limited	Strong support. There is overall validation of experience. Team & CEO have vast experience in VC & industry	There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. Most also have experience in their selected investment space.
b) Expertise & Knowledge Base	Strong support that expertise & knowledge base fits investment portfolio & space	Strong support. There is overall validation of expertise & knowledge. Multiple exits globally & expertise in focus industries is very clear.	Strong support. Overall there is validation that expertise & knowledge is necessary for firm success. The firm has a lot of expertise & knowledge though the country team expertise is somewhat limited	Strong support. There is overall validation of expertise & knowledge. Team & CEO show strong support of expertise & knowledge in VC, industry & even entrepreneurship.	There is also strong support that all the firms have expertise & knowledge that fits their investment space. Most also have vast VC expertise as well as IPO & M&A expertise.
c) Knowledge Sharing	Strong support. Knowledge sharing is indicated in all relevant areas	Strong support. Diversity of offices led by an experienced Founder. Regular meetings of mgt team show knowledge sharing in the group	Strong support. There is adequate support that there is knowledge sharing in the group	Moderate support. There is some support of knowledge sharing in the firm but as it is a single country fund sharing is not extensive	Generally there is strong support that all the firms share knowledge on a regular basis. There is diversity in the Mgt teams & they meet regularly to share knowledge & experiences.
d) Market Knowledge & Continuous Learning	Strong support. Market knowledge & continuous learning is indicated in all the different categories	Strong support of market knowledge and continuous learning shown among management	Strong support. Regionally the firm has wide market knowledge and shows continuous learning among management	Strong support. There is good support of market knowledge and continuous learning among management	There is strong support of wide market knowledge & continuous learning. Market knowledge is also obtained via industry expertise & multiple exits.
e) Independence of Management Team	Moderate support. Team is fairly senior with strong multinational team across the region. Unable to fully validate independence of management.	Moderate support. Difficult to prove independence other than high ranks of managers. Interview data indicates support of independence.	Moderate support. There is adequate support of management independence	Strong support. This is however self evident bec it is a single country fund & only reports to its investors, the Government.	There is moderate support of Mgt team independence. Most firm mgt have some independence though complete independence is not easy to verify.

Category/Firm	A) Barings - BCEA	B) BI Walden	(ii) Dealflow		C) H&Q Thailand	D) MSC Venture Corp	Conclusion
a) Identifying and securing deals	Strong support. Team has shown ability to identify and secure deals regionally with successful exits	Strong support. Firm has shown great propensity to identify & secure deals.	Strong support. Firm has shown great propensity to identify & secure deals though deals in Thailand are more limited	Strong support. Firm has shown great propensity to identify & secure deals though deals in Thailand are more limited	Strong support. The firm has clearly demonstrated its ability to identify and secure deals	There is strong support that the firms have been able to identify & secure deals. Most firms have a large portfolio of investments & many successful exits.	
b) Availability of deals in the market	Strong support. Firm has done a lot of deals within their space & geographic focus as well as regionally.	Strong support. Firm has a lot of deals in their space & geographic focus	Strong support. Firm has a lot of deals in their space & geographic focus though deals in Thailand are more limited	Strong support. Firm has a lot of deals in their space & geographic focus though deals in Thailand are more limited	Strong support. The firm has many deals in their space & geographic focus showing availability of deals in the market.	All firms show strong support that there is adequate availability of deals in their focus markets. Most firms have many deals in their investment space.	
Viability of Exits in the Market	Strong support. Firm has many exits in their space, geographic focus & several done by the regional offices	Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	(iii) Exits		Strong support of exit viability. Firm has a lot of exits in their space & geographic focus	Strong support. Firm have many exits in their space & geographic focus	There is strong support of the viability of exits in their markets. All firms have successfully exited investments in all markets they invest in.
Value of Networks	Strong support. There are a lot of investments with successful exits & wide work experience indicating good networks	Strong support. Many investments with successful exits and wide work experience showing good networks	(iv) Networks		Strong support. Many investments with successful exits and group has wide experience showing good networks	Strong support. Many investments with successful exits and wide work experience showing good networks	There is strong support of good networks among the firms. Most managers have vast work experience & have shown the ability to invest in many portfolio firms using their networks.

## Appendix I 2 – Cross-Case Pattern Matching for Failed Firms

Category/Firm	E) Softbank - SBEM	F) Transpac Capital (i) Intangible Resources	Conclusion
a) Management Team Experience	Some support. There was insufficient support of management experience. Overall experience was inadequate & only in finance & telco. No VC or investment experience & esp. no Internet experience, their focus area.	Moderate support. Team has VC experience & some industry experience but no other indication of overall experience esp. in their investment space	Only moderate to low experience shown by management team. Some industry experience shown. Transpac VP has VC experience but little experience in their changing market space. Lower levels of experience in both cases could have impacted on their success.
b) Expertise & Knowledge Base	Some support. There is insufficient expertise & knowledge in VC or Internet industry their focus area. Only expertise is in finance & telco	Some support. Inadequate support of expertise & knowledge in their investment space	Some support of industry expertise but low VC expertise except for Transpac VP. Knowledge base acknowledged to be very low in one case.
c) Knowledge Sharing	No support. There is no support of any knowledge sharing as the only other office in Poland closed within months. No indication of other Softbank partners being active in SBEM either.	Some support. There is inadequate support of knowledge sharing in the group	No support of knowledge sharing. Strong support of lack of sharing in both cases, confirmed by interview data.
d) Market Knowledge & Continuous Learning	Some support. Only some industry knowledge is relevant. There were no IPOs or exits & no knowledge of their investment space in the Internet industry.	Some support. There is some market knowledge but overall inadequate support of market knowledge & continuous learning	Some support shown of adequate market knowledge or continuous learning. Both teams had very little experience of exits & little market knowledge.
e) Independence of Management Team	No support. There is clearly no support of management independence. Firms closed by head office & team had no say in the decision.	No support. There isn't enough support of management independence. Closure decision made without consultation by HQ.	No support shown. Both teams clearly have no independence at all either in investing or decision making. Even the decision to close the firms was made by external parties at their HQ with no input from the management.

Category/Firm	E) Softbank - SBEM	F) Transpac Capital (ii) Dealflow	Conclusion
a) Identifying and securing deals	Some support. Team had identified some deals prior to closure but firm closed before any investments made. Regional office also closed without investments. Shows some ability to identify deals though none secured prior to closure	Some support. There are very few recent deals, the last one was in year 2000. Firm closed many offices in Dec 2001. However firm had many deals in the 1990s indicating that it had the ability to identify & secure deals, but has lost that ability or has lost the propensity to invest.	There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dolcom bust. There were no recent deals & in Transpac case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure.
b) Availability of deals in the market	Some support. Team had identified some deals prior to closure. Shows availability of deals in their market	No support. There are no new deals in the last 5 years. The only Malaysian deal was 10 years ago & the last regional deal was in year 2000. Possible indication of lack of availability of deals in market or of inability of firm to invest.	Some support. There were no recent deals but Softbank did identify between 5-8 deals before the decision to close while Transpac did have deals in the early years. There is support of deal availability but not enough for the firms to show success.
Viability of Exits in the Market	Some support. Firm did not have any investments prior to closure. Their office was located in a market with a viable stock exchange, but firm did not have opportunity to invest & exit.	iii) Exits  Moderate support. The firm had many exits in their space & geographic focus prior to year 2000.	Moderate support. While SBEM did not have any investments & hence no exits Transpac did in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to show viability.
Value of Networks	Some support. Although there were no successful investments some were identified prior to closure. Team also did work in related telco industry & finance so would have some networks.	iv) Networks  Moderate support. There were investments with successful exits in early years & team had wide work experience showing good networks then. But recent years investment has been poor.	Moderate support. Transpac does show support of some networks with earlier investments & exits but Softbank had less support. It is not easy to show that the firms had good networks prior to closure.



### Appendix I 3 – Cross-Case Pattern Matching Conclusions Successful vs. Failed Firms

Category/Type of Firm	Successful Firms	Failed Firms	Conclusion
		(I) Intangible Resources	
a) Management Team Experience	There is strong support that the 4 successful firms have very experienced mgt. Most have VC & investment experience & also vast industry experience. Most also have experience in their selected investment space.	Only moderate to low experience shown by management team. Some industry experience shown. Transpac VP has VC experience but little experience in their changing market space. Lower levels of experience in both cases could have impacted on their success.	Experience matters. The successful firms have a clear advantage over the unsuccessful ones due to the experience of their mgt teams in their investment space. This is especially so in having VC & investment experience. Industry experience is also clearly present in successful firms. Both failed firms have less experienced mgt & in one case while they have experience it is not in their investment space.
b) Expertise & Knowledge Base	There is also strong support that all the firms have expertise & knowledge that fits their investment space. Most also have vast VC expertise as well as IPO & M&A expertise.	Some support of industry expertise but low VC expertise except for Transpac VP. Knowledge base acknowledged to be very low in the Transpac case.	The successful firms have Mgt with wide expertise & knowledge base in their investment space. They also have a lot of VC as well as IPO & M&A expertise & knowledge. The Mgt of Transpac didn't have any expertise in their new investment space which was closer to private equity while another firm had no VC or IPO expertise. Both failed firms had limited knowledge base.
c) Knowledge Sharing	Generally there is strong support that all the firms share knowledge on a regular basis. There is diversity in the Mgt teams & they meet regularly to share knowledge & experiences.	No support of knowledge sharing. Strong support of lack of sharing in both cases and in Transpac intentional lack of sharing due to regional rivalries.	Knowledge sharing is also more prevalent among the successful firms. There is diversity of Mgt & regular meetings to share knowledge. In failed firms there is no real sharing of knowledge & in Transpac even when they do meet, there is intense rivalry among the different offices & sharing is never done.
d) Market Knowledge & Continuous Learning	There is strong support of wide market knowledge & continuous learning. Market knowledge is also obtained via industry expertise & multiple exits as well as the use of Advisory committees and external experts.	No support shown of adequate market knowledge or continuous learning. Both teams had very little experience of exits & little market knowledge. There is no support of the use of Advisory committees or external experts.	Successful firms have diverse Mgt teams & wide market knowledge due to their VC & industry expertise, multiple successful exits & Advisory Committees. Failed firms have no experience with exits, little or no VC expertise & have limited industry expertise & in one case their expertise was not relevant to their investment space. Successful firms also make use of Advisory committees and external experts.
e) Independence of Management Team	There is moderate support of Mgt team independence. Most firm mgt have some independence though complete independence is not easy to verify.	No support shown. Both teams clearly have no independence at all either in investing or decision making. Even the decision to close the firms was made by external parties at their HQ with no input from the management.	While there isn't strong support of Mgt independence, the successful firms have moderate levels of independence while the failed firms had no independence at all. The complete lack of independence & decision making capability & responsibility is clear in the closure decision which was made entirely by HQ without consultation with Mgt.

Category/Type of Firm	Successful Firms	Failed Firms	Conclusion
		(ii) Dealflow	
a) Identifying and securing deals	There is strong support that the firms have been able to identify & secure deals. Most firms have a large portfolio of investments & many successful exits.	There is some support of ability to identify deals but in the case of Transpac the latest deals were prior to the dotcom bust. There were no recent deals & in Transpac case the last Malaysian deal was 10 years ago. Both firms did not make any investments prior to closure.	The successful firms show a clear ability to identify & secure deals with a wide portfolio of investments & many successful exits. The failed firms do not show the same capability although in one case the team did manage to identify deals but were closed before they could secure the deals. In the other failed firm there were no recent deals, which could mean that they did not have the ability to identify deals or that they incapable of investing due to other reasons.
b) Availability of deals in the market	All firms show strong support that there is adequate availability of deals in their focus markets. Most firms have many deals in their investment space.	Some support. There were no recent deals but Softbank did identify between 5-8 deals before the decision to close while Transpac did have deals in the early years. There is support of deal availability but not enough for the firms to show success.	Successful firms have a wide range of portfolio investments indicating that there is adequate deal availability in their market. The failed firms did not have any investments indicating they were unable to secure deals although one firm did have a few deals in the pipeline before they were closed down. As these firms invest in the same country as 2 of the successful ones, dealflow availability alone could not have resulted in their failure.
		iii) Exits	
Viability of Exits in the Market	There is strong support of the viability of exits in their markets. All firms have successfully exited investments in all markets they invest in.	Moderate support. While SBEM did not have any investments & hence no exits Transpac did in the early years. It does show that there is viability of exits in their markets but SBEM did not get a chance to invest to show viability.	There is strong support of exit viability in their markets for the successful firms & at least one failed firm. The other failed firm did not have a chance to exit as they were closed before any investments were made.
		(iv) Networks	
Value of Networks	There is strong support of good networks among the firms. Most managers have vast work experience & have shown the ability to invest in many portfolio firms using their networks.	Moderate support. Transpac does show support of some networks with earlier investments & exits but Softbank had less support. It is not easy to show that the firms had good networks prior to closure.	The successful firms show that they have good networks & many even secured their deals through their networks. One failed firm did indicate good networks at least in its earlier days but post dotcom bust it showed less support of good networks as it did not have any recent investments. Again this lack of investments could be due to other factors & not weak networks.

## **Appendix J 1 – Interview Transcript – Christopher Chan**

REF NO: J1

RECORDING – NO

*Global Venture Capital Investing In The Emerging Markets Of South East Asia*

PARTICIPANT NAME: Chris Chan

DESIGNATION: CEO

FIRM NAME: The Media Shoppe Bhd (TMS)

DATE OF INTERVIEW: 24-11-2004      START TIME: 12.15 pm END TIME: 1.30 pm

PLACE OF INTERVIEW: Kelana Jaya, Selangor

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### **TRANSCRIPT OF THE INTERVIEW**

#### **1) Experience with VCs**

Very slow, tedious and very painful. It took 18 months of courting the VCs and only when we said no the VC said yes. They will very unprofessional in that sense and they even offered us two Term Sheets before we did the deal. They were very inexperienced as a VC. The deal with SBEM was not very good because of the valuation. They drove down the valuation and this gave Walden the opportunity to lower the valuation as well. TMS was the first deal for BI Walden's new country manager Kwee-Bee Chok. So she was not as experienced. However, Walden itself was very good.

WE must have seen more than 15 VCs. The VCs are evolving, they are also getting more experienced these days especially now that there is a good exit with Mesdaq. Our first investor was more like an angel and we did the investment very fast because they liked the people and they saw the exit potential.

#### **2) Why did they invest - SBEM/Walden Strategy**

The VCs did not tell us their strategy or their focus.

#### **Why SBEM was interested**

SBEM was a software distributor so they wanted to distribute our software through their networks. We were not very happy with this. Eventually SBEM Malaysia was closed and we did not know why. We rejected them because the valuation was low but if the valuation were right we would have gone with SBEM because Softbank is a brand name. We were hoping that they would help us to grow the business outside Malaysia. In the end we were fortunate that we did not go with them.

#### **Why Walden invested in us**

We don't know why they invested but they only did the deal after we rejected their first offer and started talking to other investors like Mavcap.

#### **Mavcap**

Mavcap liked us because we were not a start-up and we already had customers and revenue. But they were just starting so they were not ready or experienced.

### **3) Investment model or process**

We understood the Mavcap process but their managers were not qualified enough and there were bottlenecks along the way and it didn't go to the key decision makers. Walden was a lot simpler because the top people were involved from the beginning. Kwee-Bee Chok was involved from the beginning and I also met Lip-Bu. They even brought Amos in and he was their chief technology expert. He was the most difficult but then in the end he really wanted to do the deal. He was tough and he scrutinized everything. Lip-Bu was also comfortable with the people especially Joanne and me. The VPs in Walden were very experienced, they had run companies before and this is what we were looking for. We wanted to get people who had done it before and were willing to share the experience with us.

### **4) Difference between foreign and local VCs**

We met some VCs overseas and the encounters were very good but our problem was that we were in Malaysia very far away from the US. At that time the local market in Malaysia was also a problem because unlike the US where market size was larger, the market here is very small. If we were an American company in America we would have got an investment faster and more money too. Also you cannot compare Malaysia to the US. You cannot just bring the US method here and expect it to happen the same way. In Malaysia the environment cannot support big deals like in America. VCs in Malaysia also don't understand because they are not entrepreneurs to start with and that is the fundamental problem. So they don't see the opportunities like we do.

### **5) Do VCs know what they are doing**

The local VCs don't know what they are doing. The foreign VCs definitely know what they are doing because they have the experience. For example, in Singapore the new manager of Walden Singapore, KO Cheah has the experience because he listed his company Media Ring on Sesdaq and now is running Walden Singapore. One local VC who knows what he is doing is Bernard of Mavcap because he listed his company on Nasdaq so he has the experience. Among the locals I think some of the currently successful entrepreneurs like Redtone and Job Street will make good VCs in the future.

### **6) Best/Worst Experience**

Our best experience was our first investor who was an Angel investor. We pitched the deal, he liked it, asked many questions and in 2 weeks the deal was done. We were very surprised but that was a good experience. MSC VC was a problem because they were still new at that time and we were part of their learning curve. Walden was a painful experience because Kwee-Bee Chok was very discouraging and she kept saying we could not list and kept putting us down. But I took that as a challenge and now we are listed.

### **7) If you had to do it over again.**

Unfortunately to grow the business you need money unless you want to grow organically. There is nothing wrong in going to a VC. In the end it depends on the VC that did the deal. What is more important is the person itself not the brand name. A brand name is good but the VC, the individual is more important.

## Appendix J 2 – Interview Transcript – Lau Kin-Wai

REF NO: J2

RECORDING – NO

*Global Venture Capital Investing In The Emerging Markets Of South East Asia*

PARTICIPANT NAME: Lau Kin Wai

DESIGNATION: CEO

FIRM NAME: Viztel Communications

DATE OF INTERVIEW: 15-11-2004      START TIME: 2.15 pm END TIME: 3.35 pm

PLACE OF INTERVIEW: 22<sup>nd</sup> Floor, Tower 2, Petronas Twin Towers, Kuala Lumpur

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### TRANSCRIPT OF THE INTERVIEW

#### 1) Experience with VCs

##### Techpacific

David Kim (the Partner of Techpacific) left after 9 months at Techpacific. They were difficult shareholders trying to set directions for investee companies. They were forcing people to merge post dotcom crash. The strategy was to merge small start-ups into one large entity. But they had no expertise and M&A is a tough exercise. The VC firm's original culture is also lost.

We had a good relationship with David Kim who was also a mentor of the firm. After David Kim Techpacific had mostly junior people. 90% of Techpacific investments turned bad and their Nirvana Fund was dissolved. Techpacific bought Crosby in Singapore, a corporate finance firm, and went back to their roots. They have the Hong Kong government Applied Research Fund but it is not a very active fund.

##### Softbank Emerging Markets

Softbank went through the term sheet to raise RM20 million for the firm. We were close to raising the fund but 9/11 happened and Softbank's HQ decided to drop non-core investments including Malaysia. In dealing with Softbank we dealt with the local management but legal stuff was from the US. The terms were more onerous and certain terms were not applicable in Malaysia because they used US law. The governing law was US law and this is not acceptable for Malaysian firms. When 9/11 happened the company was kept in the dark and we didn't know what was happening because Softbank didn't tell us anything. The senior management of Softbank was trying to salvage the setup.

#### 2) Why They Invested

SBEM probably had a bit of a focus like telecoms but they didn't tell us. We met 40 VCs and it didn't strike us that anyone knew what they were doing except for Draper Fisher Jurvetson. We met Tim Draper, he spent just 20 minutes listening to us and then understands the business. He then tells you what he likes and what he fears. But he is clear that he does not drive the business, here merely advises. Draper didn't invest because they had no focus in Asia except for Japan.

Mayban Ventures were one of the most helpful and contributive VCs. We thought it would be bureaucratic but it was not. The decision process is fast but paperwork may be slow. They don't meddle in business direction or operation but are active in value added and business developments. They are hands-off but are active in helping the company. On IPO converting

the VC special investments make it difficult because of corporate law. Being with a large group like Mayban is good for branding.

### **3) Process**

Due diligence for local VC is more tedious. With Mayban Ventures it took 6 months to finalise. With SBEM contract negotiation took 2.5 months and had to get US HQ approval. Techpacific was very flexible. It took only 3-4 weeks.

### **4) Difference between local and foreign VCs**

During the listing process the local VC was more flexible because they understand the process but foreign VC was more difficult because their legal instruments were not accepted by Securities Commission and the local Companies Act.

### **5) Do they know what they are doing**

In general the foreign VCs are more risk friendly. Local VCs evaluate based on the old economy basis. Local VCs are also not friendly with seed funding.

### **6) Best/Worst Experience**

#### **Best foreign**

You get into the circle of people and networks in Hong Kong and introduction to key people from SBEM, Goldman Sachs etc. Networking regionally is also good.

#### **Worst Case**

Meddling in the business. The US based VCs are very numbers driven. But they should be in it not just to make money, it should be a partnership and it should be more than money, common goals and belief in the business. They also have knee jerk reactions say post 9/11 liquidating the company because of that incident.

#### **Local VCs**

Value added a bit more because they are established here. But worst is paperwork.

#### **MSC Venture Capital**

First time we took on Techpacific instead of MSCVC because of David Kim. Viztel was not looking at short-term gains so even though MSCVC money was better we took Techpacific because of David Kim. The second time around MSC VC wanted to co-invest with SBEM but when SBEM pulled out MSCVC also pulled out.

#### **Mayban Ventures**

They were interested in us because we were in the telephony technology business and not normal Internet business.

### **7) Doing it all over again**

Would have loved to get money from Angels who could also act as mentors. In terms of VCs it is better to get at a later stage when the company is trying to grow.



## **Appendix K – Biodata of Respondents**

### **Case A – Barings Communications Equity Asia (BCEA)**

#### **1) Peter Chan (Managing Partner)**

Managing Partner of Baring Communications Equity Asia Management Pte Ltd, a specialised regional media and communications venture capital fund management company, which he co-started in 1996. Prior to that, he joined the South East Asian affiliate of the Advent International Group as one of the pioneers in the regional venture capital industry. His 16-year experience in the industry includes successfully leading regional venture capital and private equity investments, managing venture capital/private equity portfolios and IPOs. He was with Arthur Andersen Singapore from 1984 to 1987. Peter is a Singapore citizen, holds a Scholarship Award and Bachelor of Accountancy (Honors) Degree from the National University of Singapore. Certified Public Accountant. Languages: English, Mandarin, Thai and major Asian dialects.

#### **2) Thian Sze, Yong (Partner)**

Formerly Country Director with Singapore Telecom. His 17 years of industry experience including 7 years of investing in cable/telephony and data communication companies. Yong has a Bachelors Degree in Electrical and Electronics Engineering from the University of Manchester Institute of Science and Technology and a Masters in Business Administration from the Manchester Business School. Languages: English, Mandarin and major Asian dialects.

### **Case B – BI Walden**

#### **1) Kwee-Bee, Chok (Country Manager)**

Kwee Bee joined Walden International in 2000. Prior to WI, she was Senior General Manager and Head of the Corporate Finance Department at Arab-Malaysian Bank, the largest Merchant Bank in Malaysia. Kwee Bee has wide experience and knowledge in the capital markets in Malaysia, especially in the areas of fundraising and corporate restructuring. She has participated in listing over 100 companies on the Kuala Lumpur Stock Exchange. Kwee Bee holds a B.A. with honors in Business from Kingston University in London. She is a member of the Associate of the Chartered Institute of Bankers. Kwee Bee focuses on electronics and digital consumer, semiconductors and software & IT services

#### **2) Cindy Tee (Formerly Investment Manager & Assistant Vice President)**

Cindy Tee was responsible for both the investment and divestment activities of the firm. Cindy represented her firm as a director on several companies, including Mesdaq-listed The Media Shoppe Bhd, Agenda Corporation, Vasa Holdings Sdn Bhd, and Stalheim Industries Sdn Bhd amongst others. Cindy graduated with a Bachelor of Business, majoring in Accounting and Finance. Cindy is a member of the ASCPA and the MACPA.

#### **3) Chee-Khen, Chong (Investment Manager)**

Chee-Khen is the Investment Manager at Walden. He received a B. Eng (Hon) in Mechanical Engineering from UMIST (now known as University of Manchester) in UK in 1994 and has an MBA from University Malaya, Malaysia (2000). From 1994 to 2000 he worked as a senior telecommunications engineer at Motorola Semiconductor (now known as Freescale Semiconductor) and left Motorola to join BI Walden in 2000.

## **Case C – H&Q Thailand**

### **1) Virapan Pulges (Managing Director)**

Mr. Pulges is responsible for investments in Thailand. Prior to joining H&Q Asia Pacific, He was the Assistant Managing Director of Thai Seri Cold Storage Company Limited for six years, one of the largest Thai seafood processors and exporters. He was also instrumental in setting up the Thai Venture Capital Association and has served as the President of the Association. Mr. Pulges obtained his Bachelor of Science with special honours in Electrical Engineering and Computer Science and a Master's degree in Electrical Engineering from the University of Colorado in Denver, Colorado with scholarship from IBM.

### **2) Patan Somburanasin (Investment Manager)**

He joined H&Q in 1997. Major responsibilities include: deal sourcing, due diligence, financial modelling and valuation of new potential investments as well as monitoring and divestment of existing investments. Previous successful investments include companies in healthcare, factory development, pulp & paper, electronics and other basic manufacturing sectors.

Patan was also a Research Assistant at the Finance Department of Southern Illinois University at Carbondale from 1995 to 1997, reporting to the Dean of the Finance Department with responsibility for assisting in research work as well as for grading and tutoring several finance courses. Prior to this he was a project and electrical engineer at Engineering System Consultant Co., Ltd from 1991 to 1995.

He has an M.B.A from Southern Illinois University with a major in Finance He was also the President of Thai Student Association and a Member of the Advisory Board of International Students and Scholars office. He also has a B.Eng., from King Mongkut Institute of Technology Ladkrabang, Thailand.

## **Case D – MSC Venture Corporation**

### **1) Esmond Goei (CEO)**

Mr. Goei is the CEO of MSC Venture Corporation Sdn Bhd. His career spans over 25 years in the high tech industry. During that time he has co-founded, turned around, and/or invested in numerous companies including: TranSwitch Corporation, (a leading developer and global supplier of innovative high-speed VLSI semiconductor solutions to communications network equipment manufacturers); NHancement Technologies Inc. (an international communications and CTI systems integrator); Digital Research, Inc., (an Intel based operating systems company); CliniCom, Inc., (the leading wireless bedside healthcare information system developer and supplier); and Centigram Communications Corporation (a leader in voice messaging systems and the first to provide unified messaging and Internet integration).

From 1986 to 1992, Mr. Goei was the Managing Director for Transtech Ventures, an international, Singapore headquartered, venture capital group with US headquarters in the heart of Silicon Valley, in Mountain View, California, USA. Mr. Goei is credited with the majority of Transtech's investment gains at that time.

Mr. Goei obtained his early telecommunications experience at Nortel Networks including tenures in engineering, marketing, and finance with the digital and electronic central office switching systems divisions. His last position at Nortel in September 1986 was as Director of its corporate Venture Capital Division. Prior to Nortel he was a Vice-President of the Venture Capital Division of the Toronto Dominion Bank, and preceding that, a Senior Systems Consultant for Touche Ross & Partners. His education includes a bachelor's degree in Electrical Engineering from Queen's University at Kingston, Canada, and an MBA in Marketing and Finance from the University of Western Ontario, Canada.

## **2) Husni Salleh (Chief Financial & Administrative Officer)**

Husni joined MSCVC as an Investment Manager in August 2000 and was promoted to Chief Operating Officer in March 2002. Prior to joining MSCVC, Husni was with BI Walden, the Malaysian unit of Walden International, where he was involved with venture capital investments.

At BI Walden, Husni was instrumental in the second round investment in Malaysia's first wafer fabrication foundry, as well as in Malaysia's first fabless semiconductor company. Husni was also instrumental in the turnaround and workout exercises of a few ICT companies in Malaysia. He led two project teams in the setting up of a venture capital fund and an incubator company in the Middle East as well as the setting up of MSCVC's second fund. Husni has in excess of 14 years of experience in the following: investment analysis, corporate advisory services and venture capital management.

He was previously a Senior Investment Analyst with Nomura Research Institute, Singapore; a Director and a Board member of Nomura Advisory Services, Malaysia and a Senior Investment Analyst and an Assistant Director of Natwest Markets, Malaysia. Husni has actively marketed investment products and services to fund and asset management companies in Asia, Europe and North America

## **3) Alan Tan (Investment Manager and Head Corporate Counsel)**

A lawyer by training, Alan comes from one of the top law firms in Malaysia handling multi-million dollar deals from corporate funding exercises to cross-border joint ventures and worldwide IPR protection representing national conglomerates.

Alan presently leads and advises the CEO/COO on most of the delicate deal-closing negotiations with potential investees drawing from his years of experience in legal practice. He sits on the boards of the investee companies and advises the CEOs of the portfolio companies on a regular basis. His familiarity with banking and finance and his stint with a top Hong Kong headhunting firm have made his assistance invaluable to our portfolio companies. He is also currently involved in the strategic planning of the national Technopreneur Development Flagship. He speaks regularly at conventions for entrepreneurs, on funding and venture capital. During his student days, he used to represent the country and the region in international mooted competitions.

## **Case E – Softbank Emerging Markets (SBEM)**

### **1) Yoke-Kee, Ang (Regional Associate)**

Yoke Kee was the Regional Associate at Softbank Emerging Markets South East Asian headquarters in Malaysia. He was responsible for the overall investments and operations in South East Asia. Prior to Softbank, Yoke Kee was an investment banker at Morgan Stanley and a strategy consultant at the Boston Consulting Group (BCG). He had advised local conglomerates and multinational companies on market entry strategies, restructuring, debt/equity raising, mergers and acquisitions, as well as privatisation and deregulation strategies across multiple industries. Yoke Kee was also part of the pioneering team responsible for transferring Microsoft's Asia Pacific Operations from Redmond to Singapore.

Yoke Kee holds an MSc in Financial Engineering and a Certificate of Computational Finance from Carnegie Mellon University and Nanyang Technological University. An ASEAN Scholar and Tan Lark Sye Scholar, he also holds a BBA Honors in Finance from National University of Singapore. Proficient in English, Malay and Mandarin, Yoke Kee had interned at Government Investment Corporation of Singapore and Citibank before working in South East Asia, China and USA.

## 2) Karan Henrik Ponnudurai (Investment Manager)

Karan was Investment Manager and Head of Business Development and Technology for Softbank Emerging Markets. In this role, Karan led direct equity investment activities and technology planning in the Asia South region. Previously, he was a founder Director of Worldwide Engineering in a wireless broadband equipment company, responsible for the design and development of spread-spectrum and signal processing products that was acquired and listed on the Australian Stock Exchange.

Karan has had extensive operational and business experience in the communications industry in various countries and has worked in Sri Lanka, Myanmar, Germany, USA and Malaysia. He is fluent in four languages and is a frequent speaker and writer in telecommunication industry conferences in the Asia-Pacific region. He holds graduate and undergraduate degrees in electrical engineering from the University of Malaya, where he was a Hewlett Packard scholarship holder and Stanford University, USA where he as a Krupp Foundation Fellow. He also completed the Asian International Executive program for Senior Management at INSEAD business school.

## Case E – Transpac Capital

### 1) Jason Ng (Vice President & Country Manager)

Jason is currently Chief Investment Officer of Expedient Equity Sdn Bhd, a Malaysian VC firm investing in the life sciences and biotech areas. He co-founded the firm in 2002 after leaving Transpac. From 1998 to end 2001, he headed and managed Transpac's investment operation in Malaysia. He was responsible for identifying, evaluating (including feasibility studies and due diligence checks), negotiating, structuring and monitoring investment opportunities with emphasis on management buyouts; restructuring deals; as well as taking strategic blocks in public listed companies; and traditional venture capital investments in privately owned companies.

Prior to Transpac between 1996 and 1998 he was Adviser to Allied Phillip Capital Management Sdn Bhd and was responsible to the Managing Director in advising on unlisted investments for the Company's private clients fund as well as for the Company's unlisted portion of the closed end fund. Between 1994 and 1996 he was a Vice President of China Investment & Development Co (M) Sdn Bhd, heading and managing CIDC's direct equity investment operation in Malaysia. His earliest post (between 1991 and 1994) was as an Investment Manager for BI Walden where he was responsible for marketing, raising and managing funds for them.

His Professional Qualifications include Chartered Financial Analyst (CFA), USA; Associate Institute of Investment Management and Research, UK (AIIMR); Certified European Federation of Financial Analysts Society (EFFAS) Financial Analysts; Associate Chartered Management Accountants, UK (ACMA) and he is also a Registered Accountant (RA), Malaysia. He also has a Master of Science in Investment Analysis from University of Stirling, UK).

His significant achievements at his most recent venture Expedient Equity include investments and Directorships in:

Company	Directorship	Target Exit
A phytochemical based company	Feb 2003	write-off
Biofertiliser Co	May 2004	2006 (MESDAQ)
ICT Co	-	2005/2006 (MESDAQ)
Bio-waste recycling co	-	2007 (MESDAQ)
Skincare and herbal based health food co	Dec 2004	2007 (MESDAQ)
IP Telephony solution provider	Jan 2005	2008

## **2) Tien Kiong, Yeo (Investment Manager)**

Yeo was the Investment Manager for Transpac Capital Pte Ltd from 1996 to 2001. Prior to that he was managing manufacturing companies in the building materials industries. Yeo has about 10 years of hands on working experience in manufacturing and 6 years of venture capital experience. He is currently a Mentor of the Cradle Investment Programme of MAVCAP.

He obtained a Mechanical Engineering degree from University Malaya, Malaysia and an MBA from Oklahoma City University, USA.